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NEWS RELEASE

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ATTORNEY GENERAL BECERRA AND THE CALIFORNIA BOARD OF ACCOUNTANCY TAKE DISCIPLINE AGAINST KPMG LLP

SACRAMENTO – California Attorney General Xavier Becerra and the California Board of Accountancy (CBA) today announced a stipulated settlement and disciplinary order against global accounting firm KPMG LLP for violations of the Accountancy Act. The CBA's action arose from KPMG admitting to being disciplined by the Securities and Exchange Commission (SEC). The SEC discipline stemmed from KPMG obtaining confidential information from the Public Company Accounting Oversight Board (PCAOB) between 2015 and 2017, which KPMG used to prepare for and improve its results in PCAOB's inspections of KPMG's public company audits. In addition, as part of the SEC discipline, KPMG admitted that many of its certified public accountants (CPA) cheated on internal continuing education exams by sharing answers, and some also manipulated the exam scoring system.

"Integrity is at the core of the accounting profession," **said Attorney General Becerra**. "Public company audits are particularly important because they provide oversight of businesses that Americans rely on to invest their hard-earned money in pensions and other retirement funds. When companies like KPMG choose to cheat rather than improve the company's practices, it undermines the whole system. They will be held accountable."

"The principles of ethics and integrity are of paramount importance to the CPA profession. Consumers rely on CPAs to abide by a code of professional conduct focused on ethics and to maintain integrity when in public practice. The misconduct found by the SEC demonstrated a serious failure by KPMG to adhere to these core principles. As the regulator in California entrusted by the Legislature to protect consumers for the public accounting profession, the CBA took disciplinary action that reinforces this mandate," **said CBA President Nancy J. Corrigan, CPA.** "In addition to the probationary terms placed on KPMG, which include a significant administrative penalty, the terms require KPMG to develop continuing education focused on the subject matter of ethics that the CBA will approve and make the hours available to all California CPAs at no cost. This term requires KPMG to demonstrate a strong recognition regarding the misconduct, and a commitment to advancing the CBA's mission of consumer protection by reinforcing the importance of ethics in the accounting profession."

KPMG is one of the accounting firms that routinely audits public companies. These audits protect the United States' economy by ensuring the financial statements produced by publicly traded companies are accurate. In turn, the SEC and the PCAOB provide oversight of KPMG's work to ensure that its work meets applicable accounting standards.

Prior to 2015, KPMG had experienced a high rate of deficiency findings in PCAOB's inspection of its public company audits. Rather than just improving practices on all of its public company audits, former KPMG personnel, which included then-KPMG partners who are California licensees, executed a scheme to obtain confidential information about PCAOB's plans for upcoming inspections. The improperly obtained information included lists of audit engagements that PCAOB would inspect as well as their areas of focus. KPMG then revised some workpapers to reduce the likelihood that PCAOB would find audit deficiencies.

In addition, a significant number of KPMG's audit professionals, many of whom are or were based in California, engaged in misconduct in connection with internally-administered training courses. The audit professionals shared questions and answers to KPMG's internal continuing education exams, which were designed to test whether they understood the accounting principles taught in the courses. Some professionals even made unauthorized changes to KPMG's server instructions that allowed them to manually select the scores necessary to pass the test.

The settlement, which is effective today, mandates the following for KPMG:

- A 30-day license suspension which is stayed during three years of probation;
- An administrative penalty of $1.3 million paid to CBA;
- Payment of enforcement costs to the CBA;
- Development of four hours of coursework on the subject of ethics, which all of KPMG's California-licensed personnel must complete in addition to the standard required continuing education. KPMG must also provide this coursework free-of-charge to all California-licensed CPAs; and
- KPMG is obligated to cooperate with any further investigation by CBA of the matters described in the SEC Order, including interviews of KPMG's personnel and providing written statements.

A copy of the stipulated settlement and disciplinary order is available here.

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Created by statute in 1901, the CBA's mandate requires that protection of the public shall be its highest priority in exercising licensing, regulatory, and disciplinary functions. The CBA currently regulates more than 108,000 licensees, the largest group of licensed accounting professionals in the nation, including individuals, partnerships, and corporations.

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