

Chapter 20 Appendix

- *Ernst & Young to Pay \$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation.*
- *5 Former KPMG Executives and PCAOB Employees Charged in Manhattan Federal Court for Fraudulent Scheme to Steal Valuable and Confidential PCAOB Information and Use That Information to Fraudulently Improve KPMG Inspection Results*
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Press Release

Ernst & Young to Pay \$100 Million Penalty for Employees Cheating on CPA Ethics Exams and Misleading Investigation

Largest Penalty Ever Imposed by SEC Against an Audit Firm

**FOR IMMEDIATE RELEASE,
2022-114**

Washington D.C., June 28, 2022 — The Securities and Exchange Commission today charged Ernst & Young LLP (EY) for cheating by its audit professionals on exams required to obtain and maintain Certified Public Accountant (CPA) licenses, and for withholding evidence of this misconduct from the SEC's Enforcement Division during the Division's investigation of the matter. EY admits the facts underlying the SEC's charges and agrees to pay a \$100 million penalty and undertake extensive remedial measures to fix the firm's ethical issues.

"This action involves breaches of trust by gatekeepers within the gatekeeper entrusted to audit many of our Nation's public companies. It's simply outrageous that the very professionals responsible for catching cheating by clients cheated on ethics exams of all things," said Gurbir S. Grewal, Director of the SEC's Enforcement Division. "And it's equally shocking that Ernst & Young hindered our investigation of this misconduct. This action should serve as a clear message that the SEC will not tolerate integrity failures by independent auditors who choose the easier wrong over the harder right."

EY admits that, over multiple years, a significant number of EY audit professionals cheated on the ethics component of CPA exams and various continuing professional education courses required to maintain CPA licenses, including ones designed to ensure that accountants can

properly evaluate whether clients' financial statements comply with Generally Accepted Accounting Principles.

EY further admits that during the Enforcement Division's investigation of potential cheating at the firm, EY made a submission conveying to the Division that EY did not have current issues with cheating when, in fact, the firm had been informed of potential cheating on a CPA ethics exam. EY also admits that it did not correct its submission even after it launched an internal investigation into cheating on CPA ethics and other exams and confirmed there had been cheating, and even after its senior lawyers discussed the matter with members of the firm's senior management. And as the Order finds, EY did not cooperate in the SEC's investigation regarding its materially misleading submission.

In addition to paying a \$100 million penalty, the Order requires EY to engage in extensive undertakings, including retaining two separate independent consultants to help remediate its deficiencies. One consultant will review the firm's policies and procedures relating to ethics and integrity. The other will review EY's conduct regarding its disclosure failures, including whether any EY employees contributed to the firm's failure to correct its misleading submission.

"The SEC will not permit the submission of misleading information or any action that delays or frustrates our mandate to protect investors and our markets," said Melissa R. Hodgman, Associate Director of the SEC's Enforcement Division. "Ernst & Young faces significant sanctions and extensive remediation to ensure that its culture and conduct meet the ethical standards required of those responsible for the integrity of our capital markets."

The Order finds that EY violated a Public Company Accounting Oversight Board (PCAOB) rule requiring the firm to maintain integrity in the performance of a professional service, committed acts discreditable to the accounting profession, and failed to maintain an appropriate system of quality control. EY has admitted the facts underlying these findings and acknowledged that its conduct violated the integrity standard and provides a basis for the SEC to impose remedies against the firm pursuant to Sections 4C(a)(2) and (a)(3) of the Exchange Act and Rules 102(e)(1)(ii) and (iii) of the Commission's Rules of Practice.

The SEC's investigation, which is continuing, has been conducted by Ian Rupell and supervised by Rami Sibay. The SEC thanks the PCAOB for its assistance in this matter.

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