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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of KPMG Samjong Accounting Corp.,

Respondent.

PCAOB Release No. 105-2022-012

August 16, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring KPMG Samjong Accounting Corp. (“KPMG Korea,” the “Firm,” or “Respondent”);
- (2) imposing a \$350,000 civil money penalty upon the Firm; and
- (3) requiring the Firm to undertake and certify the completion of certain improvements to its system of quality control.

In ordering these sanctions, the Board took into account the Firm’s extraordinary cooperation in this matter, specifically the substantial assistance it provided to the PCAOB’s investigation and the disciplinary action it took against individuals it determined had committed misconduct.

The Board is imposing these sanctions on the basis of its findings that: (1) KPMG Korea failed to comply with PCAOB standards after learning that certain procedures may not have been performed and certain evidence may not have been obtained in connection with an issuer audit; and (2) KPMG Korea’s system of quality control failed to provide reasonable assurance that audit documentation would be appropriately assembled for retention and safeguarded from improper alteration.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (“Act”), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.¹

III.

On the basis of Respondent’s Offer, the Board finds that:

A. Respondent

1. **KPMG Samjong Accounting Corp.** is a limited liability corporation organized under the laws of the Republic of Korea and headquartered in Seoul, Republic of Korea. The Firm is licensed to practice public accountancy by the Korean Financial Services Commission (Registration No. 83). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is a member of the KPMG International Limited network of firms. KPMG Korea audited the financial information for five Korean components of Issuer A for the fiscal year ended September 30, 2017 (“Component Audit”).

¹ The findings herein are made pursuant to Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

B. Relevant Entities and Individuals

2. The “Component Lead Partner” is a former partner of KPMG Korea. He was the partner responsible for the Firm’s work on the Component Audit.²

3. The “Engagement Manager” was formerly employed as a director by KPMG Korea. He served as the engagement manager for the Component Audit.³

4. Issuer A was, at all relevant times, a Delaware corporation headquartered in Arizona. Issuer A’s public filings disclose that it was a specialty materials manufacturer. At all relevant times, Issuer A was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

5. This matter concerns KPMG Korea’s failure to take required steps after learning that certain audit procedures may not have been performed and sufficient audit evidence may not have been obtained in connection with an issuer audit. Specifically, after the Component Audit had been completed and the Firm was preparing for a PCAOB inspection, senior KPMG Korea personnel learned that the engagement team for the Component Audit may have failed to perform certain planned procedures for accounts receivable and may have failed to obtain sufficient appropriate audit evidence. Indeed, senior members of the Firm learned that significant portions of the engagement team’s documentation related to accounts receivable for the Component Audit consisted primarily of prior-year work papers, indicating that audit procedures may not have been performed, evidence may not have been obtained, or appropriate conclusions may not have been reached in the Component Audit. However, the Firm failed to take reasonable steps at the time to determine and demonstrate that sufficient procedures were performed, sufficient evidence was obtained, and appropriate conclusions were reached with respect to relevant assertions for accounts receivable. The Firm thereby violated PCAOB auditing standards.

6. This matter also concerns KPMG Korea’s failure to establish and implement appropriate policies and procedures to provide reasonable assurance that: (1) personnel would assemble for retention (“archive”) a complete and final set of audit documentation in connection with each issuer audit; and (2) archived audit documentation would be protected against improper alteration. In particular, the Firm failed to establish appropriate policies and

² See *Jin Tae Kim*, PCAOB Release No. 105-2022-013 (Aug. 16, 2022).

³ See *Se Woon Jung*, PCAOB Release No. 105-2022-014 (Aug. 16, 2022).

procedures to address the risk that hard-copy work papers might be improperly added to previously archived audit documentation.

D. Respondent Violated PCAOB Rules and Standards

i. Background

7. KPMG LLP (“KPMG US”) performed an integrated audit of Issuer A for the fiscal year ending September 30, 2017. KPMG US instructed its Korean affiliate, KPMG Korea, to audit the financial information for five Korean components of Issuer A.⁴ The Korean components constituted 27% of Issuer A’s reported revenue and 23% of Issuer A’s reported assets for fiscal year 2017.

8. KPMG US instructed KPMG Korea that, for the Component Audit, audit procedures should be performed and audit documentation should be prepared and retained in accordance with PCAOB standards. KPMG US further instructed the Firm that the five Korean components of Issuer A were, collectively, financially significant and identified revenue as a significant account for the Component Audit. In addition, KPMG US informed the Firm that there was a risk of fraud related to revenue cutoff.

9. At the conclusion of the Component Audit, KPMG Korea sent to KPMG US an interoffice report, which stated that the Component Audit was conducted in accordance with PCAOB standards. It also stated the engagement team had addressed the fraud risk related to revenue cutoff by performing accounts receivable confirmation procedures.

ii. The Firm Failed to Comply with PCAOB Auditing Standards

10. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm comply with the Board’s auditing and related professional practice standards.⁵ PCAOB standards require an auditor to exercise due professional care, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient audit evidence to provide a reasonable basis for the auditor’s opinion.⁶ PCAOB

⁴ See AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

⁶ See AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

standards further require the auditor to document procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions.⁷

11. PCAOB standards also provide that if, after the documentation completion date for an audit,⁸ “the auditor becomes aware, as a result of a lack of documentation or otherwise, that audit procedures may not have been performed, evidence may not have been obtained, or appropriate conclusions may not have been reached, the auditor must determine, and if so demonstrate, that sufficient procedures were performed, sufficient evidence was obtained, and appropriate conclusions were reached with respect to the relevant financial statement assertions.”⁹

12. On or around September 20, 2018, KPMG Korea’s Department of Professional Practice (“DPP”) learned that the PCAOB would inspect the Firm and the inspection would include a review of the Component Audit. On or around October 4, 2018, the DPP learned that revenue and accounts receivable would be focus areas for the review of the Component Audit.

13. In preparing for the inspection, members of the DPP and the engagement team reviewed the archived audit documentation for the Component Audit. In the course of the review, members of the DPP learned that audit procedures may not have been performed, evidence may not have been obtained, or appropriate conclusions may not have been reached in connection with the Component Audit. Specifically, DPP members, including multiple partners, learned that, for three of the five Korean components of Issuer A, the accounts receivable documentation consisted primarily of prior-year work papers. The accounts receivable balance for these three components of Issuer A constituted 73% of accounts receivable recorded by the Korean components as of September 30, 2017. The leader of the Firm’s DPP (“DPP Leader”) was among those who were informed that accounts receivable work papers for the wrong year had been archived in the electronic audit documentation for the Component Audit.

14. Upon becoming aware of the lack of documentation related to accounts receivable, the DPP understood that the Firm needed to determine and, if so, demonstrate that sufficient procedures had been performed, sufficient evidence had been obtained, and appropriate conclusions had been reached with respect to accounts receivable during the

⁷ See AS 1215.06, *Audit Documentation*.

⁸ See *id.* at .15 (defining documentation completion date as a date not more than 45 days after an auditor releases an audit report).

⁹ *Id.* at .09.

Component Audit (the “Determination and Demonstration”). Rather than participating in or monitoring the Determination and Demonstration, however, the DPP relied on the Component Audit engagement team to evaluate the sufficiency of the procedures and evidence, and did not adequately follow up with the engagement team. As a result, the DPP did not learn until *after* the PCAOB inspection that: (1) the Component Audit engagement team did not conduct an appropriate Determination and Demonstration; and (2) sufficient procedures had not been performed and sufficient audit evidence had not been obtained for accounts receivable during the Component Audit.¹⁰

15. Given the significance of the issues raised by the Component Audit engagement team’s inclusion of prior-year work papers in the audit documentation, the DPP’s decision to rely on the team to conduct the Determination and Demonstration, without adequate oversight and follow-up, was unreasonable. The Firm, therefore, violated PCAOB standards.¹¹

iii. The Firm Failed to Comply with PCAOB Quality Control Standards

16. PCAOB rules require registered public accounting firms to comply with the Board’s quality control standards.¹² PCAOB quality control standards, in turn, require each registered firm to effectively design, implement, and maintain a system of quality control for the firm’s accounting and auditing practice.¹³ The quality control system should include policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality.¹⁴ Among other areas, a firm’s policies and procedures should address the documentation of each engagement in accordance with applicable professional standards.¹⁵

17. PCAOB standards require an auditor to assemble for retention a complete and final set of audit documentation as of a date not more than 45 days after the report release

¹⁰ The Firm ultimately completed the requisite determination after the Component Audit engagement team’s document alterations (described below) came to light during the Board inspection.

¹¹ See AS 1215.09.

¹² See PCAOB Rule 3400T, *Interim Quality Control Standards*.

¹³ QC §§ 20.01 and 20.02, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*.

¹⁴ See *id.* at .17.

¹⁵ See *id.* at .18.

date.¹⁶ PCAOB standards also provide that “[a]udit documentation must not be deleted or discarded after the documentation completion date, however, information may be added. Any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.”¹⁷

18. At the time of the Component Audit and the PCAOB’s 2018 inspection, the Firm lacked sufficient policies and procedures to provide reasonable assurance that personnel would comply with PCAOB audit documentation requirements. In particular, the Firm’s system of quality control failed to provide reasonable assurance that hard-copy work papers, once assembled for retention, would not be improperly altered. As described below, the Component Lead Partner and Engagement Manager exploited the deficiencies in the Firm’s system of quality control and improperly added numerous hard-copy work papers to the documentation for the Component Audit shortly in advance of the PCAOB inspection.

19. Specifically, from October 15, 2018 through November 22, 2018, members of the Component Audit engagement team checked out various portions of the hard-copy work papers for the Component Audit on three separate occasions. While the hard-copy work papers were checked out, the Component Lead Partner and Engagement Manager improperly added documents to the archived audit documentation, including documents gathered by Component Audit engagement team members acting at their direction. The late-added documentation included work papers that described accounts receivable testing that was not performed at the time of the Component Audit and a management representation letter. The Component Lead Partner and Engagement Manager also created an independence confirmation that they, and other Component Audit engagement team members acting at the Component Lead Partner’s direction, executed in a manner that made it appear as if the independence confirmation had been completed during the Component Audit. These documents were added to the audit documentation shortly before the inspection and more than ten months after the documentation completion date for the Component Audit. In violation of PCAOB standards, these documents did not indicate the date the information was added, the name of the person who prepared the additional documentation, or the reason for adding it.¹⁸

20. The Firm’s quality control system failed to provide reasonable assurance that the work performed by engagement personnel met applicable professional standards, regulatory requirements, and the Firm’s standards of quality. Despite warning signs that document

¹⁶ See AS 1215.14-.15.

¹⁷ *Id.* at .16.

¹⁸ *See id.*

manipulation might occur, including the multiple requests by the Component Audit engagement team to “check out” the hard-copy work papers shortly in advance of the PCAOB inspection, and the previously identified deficiencies in the accounts receivable documentation for the Component Audit, the Firm’s system of quality control failed to detect or prevent this misconduct. Accordingly, the Firm violated PCAOB quality control standards.¹⁹

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent’s Offer.

In ordering these sanctions, the Board took into account the Firm’s extraordinary cooperation in this matter. Specifically, the Firm: (a) provided assistance to the PCAOB’s investigation, including by conducting its own internal investigation and sharing the results of that internal investigation with Board staff; and (b) separated from the Firm certain personnel identified by the Firm as responsible for the misconduct. Absent that extraordinary cooperation, the sanctions imposed on the Firm would have been greater.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), KPMG Korea is censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty in the amount of US \$350,000 upon KPMG Korea. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. KPMG Korea shall pay this civil money penalty within twenty days of the issuance of this Order by: (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier’s check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006, and (c) submitted under a cover letter that identifies KPMG Korea as a respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office

¹⁹ See QC §§ 20.17-.18.

of the Secretary, Attention: Phoebe Brown, Secretary, Public Company
Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;

- C. Pursuant to Sections 105(c)(4)(F) and (G) of the Act and PCAOB Rules 5300(a)(6) and (9), KPMG Korea is required:
1. within 30 days from the date of this Order, to provide an electronic or paper copy of this Order, together with a Korean language translation, to each of its associated persons;
 2. within 90 days from the date of this Order, to establish, revise, or supplement, as necessary, policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that personnel comply with applicable audit documentation requirements and cooperate with PCAOB inspections;
 3. within 90 days from the date of this Order, to ensure that all Firm professionals involved in any “audit,” as that term is defined in Section 110(1) of the Act, have received 4 hours of additional training concerning compliance with: (i) AS 1215, *Audit Documentation*; and (ii) PCAOB Rule 4006, *Duty to Cooperate with Inspectors*;
 4. Within 120 days from the date of this Order, to provide a certification, signed by the CEO and the DPP Leader of KPMG Korea, to the Director of the PCAOB’s Division of Enforcement and Investigations, stating that the Firm has complied with paragraphs IV.C.1-.3, above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. KPMG Korea shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request;
 5. For two years from the date of this Order, to promptly report to the Board any allegation of improper document alterations in connection with (i) the Firm's system of quality control, (ii) any audit subject to the PCAOB's jurisdiction, or (iii) any PCAOB inspection or investigation; and

6. For two years from the date of this Order, within one week after being notified that the PCAOB will inspect the Firm, to notify its personnel of the inspection and specifically instruct its personnel of their obligation to cooperate with PCAOB inspections, including by not preparing or making available to the PCAOB's inspectors documents containing misleading information, and by not making misleading statements to the PCAOB's inspectors.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

August 16, 2022