Insider Trading Scandal Hits KPMG

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Last week, news broke that a Los Angeles partner of KPMG had provided a friend with material non-public information about several KPMG audit clients, and the friend had traded on that information. KPMG terminated the partner and resigned as auditor of two clients for whom the partner was lead partner. In addition, KPMG withdrew its audit reports for prior years for the two clients, on the basis that it was not independent because of the former partner's alleged insider trading. Federal prosecutors have brought criminal charges against the partner, and the SEC has instituted a civil suit against him. According to KPMG, the partner's "rogue actions" violated the firm's "rigorous policies and protections, betrayed the trust of clients as well as colleagues, and acted with deliberate disregard for KPMG's long-standing culture of professionalism and integrity."

This case should not be viewed as indicative of any systemic internal compliance issue at accounting firms. Rogue individuals in other professions, including law, investment banking and consulting, have also engaged in insider trading notwithstanding the legal prohibitions and stringent internal policies and procedures. Audit committees should, nonetheless, consider reviewing with their auditors the audit firm's policies and procedures against misuse of confidential client information.

Based on some commentators' comments, the scandal may give new impetus to the PCAOB's long-pending proposal to require an audit firm to disclose the name of the engagement partner on each audit report. The PCAOB first issued a concept release on this topic in July 2009, and issued a proposed standard in October 2011. The PCAOB's current standard-setting agenda targets April-September 2013 for action on the proposal.