

Ernst & Young pays \$4M to settle SEC charges

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(Photo: Richard Drew, AP)

WASHINGTON (AP) — Ernst & Young has agreed to pay \$4 million to settle civil charges of compromising its independence by lobbying Congress on behalf of two companies whose books it audited.

The Securities and Exchange Commission announced the settlement Monday with New York-based company, one of the so-called Big Four accounting firms with Deloitte, KPMG and PricewaterhouseCoopers.

The SEC said employees of Washington Council EY, a lobbying subsidiary of Ernst & Young, met with congressional staff and tried to influence pending legislation on the two companies' behalf. That improperly made Ernst & Young an advocate for the two audit clients, the SEC said, at the same time that the accounting firm called itself "independent" in its audit reports included in the two companies' financial statements.

Acting as an advocate for a company could damage an accounting firm's objectivity in conducting audits for the company, potentially giving investors an inaccurate picture of its finances, regulators say.

The violations occurred prior to 2009. The SEC didn't name the companies or the legislation.

Ernst & Young said in a statement, "We regret these instances that arose many years ago and are pleased to put this matter behind us." The firm noted that in 2012, it voluntarily decided to stop doing lobbying for public company audit clients.

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The SEC has brought a number of cases involving auditor independence against big accounting firms in recent years. The issue came to the fore in the Enron scandal that broke in late 2002 and in several accounting scandals involving big corporations that followed it.

In the new case, the SEC said Ernst & Young had a written independence policy but failed to provide Washington Council EY with formal training on the policy.

Ernst & Young neither admitted nor denied the SEC's allegations but did agree to refrain from future violations of auditor independence rules and the securities laws. The SEC also censured Ernst & Young, bringing the possibility that the firm could face a stiffer sanction if the alleged infraction is repeated.

Ernst & Young is paying a \$2.48 million penalty, plus \$1.24 million in restitution and \$351,925 in interest.

The SEC said that in deciding on the sanctions, it took into account corrective steps taken by Ernst & Young, such as the new restrictions it adopted in 2012.

The SEC previously has taken similar action against Ernst & Young. In 2007, the SEC censured the firm and ordered it to pay \$1.6 million to settle charges of compromising its independence and contributing to faulty accounting by an audit client, PNC Financial Services Group.

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