SEC Fines Ernst & Young $100 Million After Auditors Cheat on Ethics Exams, Mislead Investigation

Ernst & Young LLP, one of the largest accounting firms in the world, has been fined $100 million by the Securities and Exchange Commission after admitting that its audit professionals cheated on certified public accountant licensing exams, and for withholding evidence of this misconduct from the SEC's Enforcement Division during its investigation.

In addition to the fine, which is the largest ever imposed by the SEC against an audit firm, Ernst & Young agreed to "undertake extensive remedial measures to fix the firm's ethical issues."

Ernst & Young reportedly admitted that, over multiple years, "a significant number" of its 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.

Ernst & Young further admitted that during the investigation of potential cheating at the firm, it made a submission conveying to the SEC that it did not have current issues with cheating when, in fact, the firm had been informed of potential cheating on a CPA ethics exam, the SEC said.

The SEC claims that Ernst & Young also admitted 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. Thus, the SEC alleges that the firm did not cooperate in its investigation regarding its "materially misleading submission."

"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 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."

In addition to paying a $100 million penalty, the SEC requires Ernst & Young 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 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 SEC found that Ernst & Young violated a Public Company Accounting Oversight Board (PCAOB) rule requiring it 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.

The SEC’s investigation is continuing.

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