

SEC Charges Ernst & Young With Violating Auditor Independence Rules in Lobbying Activities

FOR IMMEDIATE RELEASE **2014-136**

Washington D.C., July 14, 2014 — The Securities and Exchange Commission today charged Ernst & Young LLP with violations of auditor independence rules that require firms to maintain their objectivity and impartiality with clients.

Ernst & Young agreed to pay more than \$4 million to settle the charges.

The SEC's order instituting a settled administrative proceeding finds that an Ernst & Young subsidiary lobbied congressional staff on behalf of two audit clients. Such lobbying activities were impermissible under the SEC's auditor independence rules because they put the firm in the position of being an advocate for those audit clients. Despite providing the prohibited legislative advisory services on behalf of the clients, Ernst & Young repeatedly represented that it was "independent" in audit reports issued on the clients' financial statements.

"Auditor independence is critical to the integrity of the financial reporting process. When an auditor acts as an advocate for its audit client, that independence is compromised," said Scott W. Friestad, associate director in the SEC's Division of Enforcement. "Ernst & Young engaged in lobbying activities that constituted improper advocacy and clearly violated the rules."

According to the SEC's order, Ernst & Young's subsidiary Washington Council EY (WCEY) impaired the firm's independence in several lobbying actions:

- WCEY sent letters signed by a senior executive of an Ernst & Young audit client to congressional staff, urging passage of certain legislation.
- WCEY asked congressional staff to insert language into a bill that was favorable to the business interests of an Ernst & Young audit client.
- WCEY met with congressional staff in order to defeat legislation detrimental to the business interests of an Ernst & Young audit client.
- WCEY asked third parties to approach a U.S. senator in order to seek support for a legislative amendment sought by an Ernst & Young audit client.
- WCEY marked up a draft of a bill by inserting an Ernst & Young audit client's language and sending it to congressional staff.

According to the SEC's order, Ernst & Young had issued a written independence policy intended to provide guidance on the provision of legislative advisory services to audit clients. However, Ernst & Young did not provide WCEY with formal, in-person training specifically tailored to the policy.

The SEC's order finds that Ernst & Young committed violations of Rule 2-02(b)(1) of Regulation S-X; caused violations of Section 13(a) of the Securities Exchange Act of 1934 and Rule 13a-1; and engaged in improper professional conduct pursuant to Exchange Act Section 4C(a)(2) and Rule 102(e)(1)(ii) of the Commission's Rules of Practice. The SEC's order requires Ernst & Young to cease and desist from violating the auditor independence rules and from causing violations of the corporate periodic reporting provisions of the federal securities laws. The SEC also censured Ernst & Young and ordered payment of \$4.07 million in monetary sanctions, including disgorgement of \$1.24 million, prejudgment interest of

\$351,925.98, and a penalty of \$2.48 million. The SEC took into consideration the remedial acts undertaken by Ernst & Young and its cooperation with SEC staff during the investigation. For example, Ernst & Young voluntarily issued new guidance in June 2012 restricting such legislative advisory services. The firm issued similar final guidance in May 2013.

The SEC's investigation was conducted by Jeremiah Williams, Kam H. Lee, and Robert Peak. The case was supervised by David Frohlich.

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Related Materials

- [SEC order](#)