PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of KPMG S.p.A. (Italy),

Respondent.

PCAOB Release No. 105-2025-010

March 11, 2025

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 S.p.A. ("KPMG Italy," the "Firm," or "Respondent");

(2) imposing a civil money penalty in the amount of $175,000 upon the Firm; and

(3) requiring the Firm to undertake certain remedial actions as described in Section IV of this Order.

The Board is imposing these sanctions on the basis of its findings that, between 2021 and 2023, the Firm: (a) filed inaccurate Form APs in connection with two audits of an issuer client, in violation of PCAOB Rule 3211(a), *Auditor Reporting of Certain Audit Participants*; and (b) violated PCAOB quality control standards.

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 (the "Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, KPMG Italy 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 S.p.A.** is a public accounting firm headquartered in Milan, Italy. It is a member firm of the KPMG International Limited network of firms ("KPMG International"). At all relevant times, KPMG Italy was registered with the Board pursuant to Section 102 of the Act and PCAOB rules. During the period covered by this Order, the Firm reported that it annually served as the principal auditor for one issuer client—Natuzzi S.p.A.

B. Issuers

2. **Natuzzi S.p.A.** ("Natuzzi") is headquartered in Santeramo in Colle, Italy. Its public filings disclose that it is a producer and designer of luxury furniture. Natuzzi was, at all relevant times, an "issuer" as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). KPMG Italy issued audit reports that Natuzzi included in its Form 20-Fs filed with the U.S. Securities and Exchange Commission ("Commission") for the fiscal years ended December 31, 2020 and 2021 (the "Natuzzi Audits").

C. Summary

3. This matter concerns KPMG Italy's failure to report on Form AP the participation of an other accounting firm in the Natuzzi Audits, in violation of PCAOB Rule 3211(a). In addition, between 2021 and 2023, KPMG Italy violated PCAOB quality control standards related to engagement performance by failing to establish appropriate policies and procedures, including monitoring procedures, to provide reasonable assurance that the Firm's audit professionals would accurately identify in required Form AP filings the accounting firms that participated in KPMG Italy audits and their percentage of participation.

D. KPMG Italy Filed Two Inaccurate Form APs in Violation of PCAOB Rule 3211(a)

4. PCAOB Rule 3211 provides that each registered public accounting firm must provide information about engagement partners and other accounting firms that participate in

[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.

audits of issuers by filing a Form AP, *Auditor Reporting of Certain Audit Participants*, for each audit report issued by the firm for an issuer.[2]

5. PCAOB Rule 3211(a) provides that, "[f]or each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form."

6. The instructions to Item 4.1 of Form AP "Part IV - Responsibility for the *Audit* Is Not Divided" require that an auditor who uses an "other accounting firm"[3] that incurs more than 5% of the total audit hours "[s]tate the legal name of *other accounting firms* and the extent of participation in the *audit*" in its Form AP.[4]

7. The instructions to Item 4.2 of Form AP "Part IV – Responsibility for the *Audit* is Not Divided" require an auditor to "[s]tate the number of *other accounting firm(s)* individually representing less than 5% of total audit hours" and "[i]ndicate the aggregate percentage of participation" by those other accounting firms.[5]

8. Form AP Item 3.2 explains that an other accounting firm participated in the audit if "the Firm assume[d] responsibility for the work and report of the *other accounting firm* as described in . . . AS 1205, *Part of the Audit Performed by Other Independent Auditors*," or "the *other accounting firm* or any of its principals or professional employees was subject to supervision under AS 1201, *Supervision of the Audit Engagement*."[6]

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[2] Form APs must be filed by the 35th day after the date the audit report is first included in a document filed with Commission, *see* PCAOB Rule 3211(b)(1), subject to a shorter filing deadline that applies when the audit report is first included in a registration statement filed under the Securities Act of 1933, as amended, *see* PCAOB Rule 3211(b)(2).

[3] *See* General Instruction No. 2 of Form AP ("'[O]ther accounting firm' means (i) a *registered public accounting firm* other than the Firm; or (ii) any other *person* or entity that opines on the compliance of any entity's financial statements with an applicable financial reporting framework").

[4] In the adopting release for PCAOB Rule 3211, the Board explained that information provided on Form AP was "intended to help investors understand how much of the audit was performed by the accounting firm signing the auditor's report and how much was performed by other accounting firms," and allow investors to "research publicly available information about the firms identified in the form, such as whether a participating firm is registered with the PCAOB, whether it has been inspected and, if so, what the results were and whether it has any publicly available disciplinary history." *See Improving the Transparency of Audits: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form and Related Amendments to Auditing Standards*, PCAOB Rel. No. 2015-008, at 4 (Dec. 15, 2015).

[5] *See* Item 4.2 and Part IV of Form AP.

[6] *See* Note to Item 3.2 of Form AP.

9. In connection with the Natuzzi Audits, KPMG Italy filed Form APs that failed to accurately report information concerning an other accounting firm's participation in those audits through the other accounting firm's review of KPMG Italy's determination of critical audit matters ("CAMs").[7]

10. In connection with preparing an audit report, "[t]he auditor must determine whether there are any [CAMs] in the audit of the current period's financial statements."[8] A CAM is "any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment."[9]

11. During the Natuzzi Audits, guidance followed by KPMG Italy required that another, specifically-designated KPMG International-affiliated entity review and evaluate certain CAMs that would be communicated in the auditor's report prior to the issuance of the report. KPMG Italy referred to that designated entity as a "CAM Hub."

12. During the Natuzzi Audits, KPMG Italy consulted with and utilized a UK-based CAM Hub, which was a wholly owned subsidiary of an other accounting firm based in England (the "UK Firm"), to review and evaluate its CAM determinations ("CAM Hub Reviews"). The UK Firm directed and supervised its subsidiary's CAM Hub Reviews on the Natuzzi Audits. As a result, the UK Firm participated in the Natuzzi Audits.

13. Following each of the Natuzzi Audits, KPMG Italy filed a Form AP. Despite utilizing the work of the UK Firm in each of the audits, KPMG Italy failed to report the UK Firm as a participant in those audits in its Form AP filings.

14. Accordingly, KPMG Italy violated PCAOB Rule 3211(a) in connection with the Form APs filed for the Natuzzi Audits.

15. On May 6, 2024, KPMG Italy filed amended Form APs for each of the Natuzzi Audits to report the UK Firm's participation as an other accounting firm representing less than 5% of total audit hours, thereby increasing the reported number of firms individually representing less than 5% of total audit hours by one for each of the Natuzzi Audits.

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[7] The other accounting firm participant referenced in the Order meets the definition of an "other accounting firm" requiring reporting on Form AP in accordance with the instructions of Form AP. *See* Rule 3211(a) and *supra* note 3.

[8] AS 3101.11, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

[9] *Id.*

E. KPMG Italy Violated PCAOB Quality Control Standards

16. PCAOB rules require that a registered firm comply with PCAOB quality control standards.[10] Those standards require a firm to "have a system of quality control for its accounting and auditing practice."[11] As part of this requirement, "[p]olicies and procedures should be established 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."[12]

17. PCAOB quality control standards also recognize that monitoring procedures are necessary "to provide the firm with reasonable assurance that the policies and procedures relating to each of the other elements of quality control are suitably designed and are being effectively applied."[13] Under PCAOB standards, monitoring involves an ongoing consideration and evaluation of, among other things, compliance with the firm's policies and procedures.[14]

18. From 2021 through 2023, KPMG Italy failed to establish and implement adequate policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that the work performed by engagement personnel met applicable regulatory requirements related to accurately reporting on Form AP the participation, including the percentage of participation, of other accounting firms in issuer audits.

19. Although KPMG Italy had certain quality control policies and procedures relating to Form AP reporting in connection with the use of other accounting firms, the Firm failed to implement and monitor them in an adequate manner. As a result, the Firm filed two inaccurate Form APs between 2021 and 2022.

20. Accordingly, the Firm failed to comply with QC § 20 and QC § 30.

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. Accordingly, it is hereby ORDERED that:

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10 PCAOB Rule 3400T, *Interim Quality Control Standards*.

11 QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

12 QC § 20.17.

13 QC § 30.02, *Monitoring a CPA Firm's Accounting and Auditing Practice*; *see also* QC § 20.20.

14 *See* QC § 20.20.d; QC § 30.02.d.

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), KPMG Italy is hereby censured;

B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $175,000 is imposed on KPMG Italy.

1. 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.

2. The Firm shall pay this civil money penalty within ten (10) days of the issuance of this Order by: (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies KPMG Italy 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 Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.

3. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.

4. Respondent understands that failure to pay the civil money penalty described above may result in summary suspension of its registration, pursuant to PCAOB Rule 5304(a), following written notice to Respondent at the address on file with the PCAOB at the time of the issuance of this Order.

C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Board orders that:

1. <u>Review by KPMG Italy.</u> Within three months of the date of this Order, KPMG Italy shall review and evaluate its quality control policies and procedures to assess whether those policies and procedures provide the firm with reasonable assurance that its personnel and other associated persons comply with PCAOB Rule 3211.

2. Reporting. Within three months of the date of this Order, KPMG Italy shall submit a written report to the Director of the Division of Enforcement and Investigations summarizing the review and evaluation of the areas specified in paragraph C.1 above ("Report"). The Report shall describe any modified or additional policies or procedures adopted or to be adopted by KPMG Italy or, if KPMG Italy concludes no such modifications or additions should be adopted, a detailed and satisfactory explanation of why the Firm believes changes are not warranted. In addition, KPMG Italy shall submit any additional information and evidence concerning the Report, the information in the Report, and KPMG Italy's compliance with this Order as the staff of the Division of Enforcement and Investigations may reasonably request.

3. Certificate of Implementation. Within six months of the date of this Order, the individual designated as KPMG Italy's Senior Partner shall certify in writing ("Certificate of Implementation") to the Director of the Division of Enforcement and Investigations that KPMG Italy has implemented all of the modifications and additions, if any, to its policies and procedures that were described in the Report. The Certificate of Implementation shall provide written evidence of KPMG Italy's adoption of such modifications and additions in narrative form, identify the actions taken to implement such modifications and additions, and be supported by exhibits sufficient to demonstrate implementation. KPMG Italy shall also submit such additional evidence of, and information concerning, implementation as the staff of the Division of Enforcement and Investigations may reasonably request.

4. Noncompliance. KPMG Italy understands that a failure to satisfy all applicable undertakings may constitute a violation of PCAOB Rule 5000 and could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown
Secretary

March 11, 2025