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Failed Signature Bank Executive Ranks Filled by KPMG Audit Alums

By Amanda Iacone

- CEO, CFO, some board members, risk officer all worked for KPMG
- Even appearance of auditor conflict erodes investor confidence

Ties between Signature Bank and its auditor KPMG LLP run deep among the top leaders and board members of the failed lender, many of whom previously worked at the Big Four accounting firm.

Signature's founder and top executive Joseph DePaolo was an audit manager at KPMG, and Stephen Wyremski, the institution's chief financial officer, was a bank auditor for the firm, according to their biographies. Another alum of the firm, Keisha Hutchinson, signed off on the institution's 2020 financial statements as a KPMG audit partner—just a month before the bank announced it was hiring her at its chief risk officer, a position she was still holding when the bank collapsed.

Judith Huntington and Michael Pappagallo, members of the Signature examining committee that oversaw the work of the auditor, also previously were auditors for KPMG, according to their biographies.

"One has to question why it is that management wants to stay with KPMG so badly," said Karla Zehms, associate dean for research at the University of Wisconsin–Madison. "And it says to me the reason they are staying with KPMG is because there's too cozy of a relationship between KPMG and this bank."

KPMG, Signature's auditor since 2001, has drawn criticism for giving the bank a clean audit opinion on March 1. Just 11 days later regulators shut down the bank after a run by depositors.

The firm also gave a clean bill of health to Silicon Valley Bank, which similarly collapsed last week. Federal bank regulators stepped in to protect depositors in both banks, but they offered no such relief for investors, who have already sued Signature claiming the bank made misleading statement's about the health of its balance sheet and the risks it faced.

A representative of Signature declined to comment. The FDIC, which took over the bank on Sunday, also declined to comment.

KPMG said its audits conform to professional standards and that it could not discuss specific clients. The firm declined to answer questions about Hutchinson or the firm's relationship with Signature. Hutchinson couldn't be reached for comment.

The firm said earlier this week that auditors could not contemplate "any unanticipated events or actions taken by management" after KPMG released its audit report on the company's latest financial statements.

Appearance of Conflict Rules

Auditors are required in the US to be independent of their clients in order to ensure they can challenge management's accounting and assumptions about their business outlook, or their ability to continue operating. Even the appearance of a conflict of interest could threaten investor trust in the reliability of corporate accounting, and trigger regulator scrutiny.

Strict auditor independence rules require partners to wait a year before they are allowed to accept lucrative positions as CFOs, controllers or similar roles involved in financial reporting at a client, known as a cooling off period.

Those rules aim to reduce the risk that a former partner's relationships with accountants who were being supervised could compromise the audit. Negotiating for a new job with a client while still working on that company's audit risks tilting a partner's judgment in management's favor, downplaying risks or red flags that should have been discussed in the company's disclosures.

Policing auditors to ensure they avoid such conflicts is a perennial issue for regulators at the Securities and Exchange Commission, who have threatened tougher penalties for repeated lapses.

Enforcement cases directly involving cooling off periods or auditors who take jobs with former clients are rare. But Signature Bank's failure could bring closer scrutiny not just on the bankers' stewardship of the company but of the auditor's role.

Hutchinson became the bank's risk officer in June 2021. Three months earlier, on March 1, as a KPMG audit partner, she had signed off on its accounts, according to US audit regulatory records. Soon after, on April 23 of that year, the bank announced her new role overseeing risk management, compliance and information security.

Whether Hutchinson's work as the bank's risk executive extended into financial reporting depends on the scope of her daily work. It's unclear whether her career move would have violated those auditor independence rules, said Jon Baumunk, a former investment analyst who teaches accounting ethics at San Diego State University.

"But there needs to also be the perception by the public that everything is above board," Baumunk said. "And if there's not such a perception then this erodes confidence in the capital markets and causes people to be skittish when bank failures like Signature and Silicon Valley bank are announced."

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