

Capitol Report

KPMG won BBVA audit with stolen data about rival's inspections

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Former regulatory executive used access to Deloitte inspection information to successfully pitch BBVA



A customer leaves a branch of the BBVA bank in Madrid, Spain. Photographer: Santi Burgos/Bloomberg News.
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An auditor was able to use access to confidential regulatory inspection data to get advance knowledge of its own inspections and also poach a client.

The revelation, coming in court documents supporting the government's case against former KPMG partners, shows the confidential information was also used against the auditor's rivals.

[Read: The auditor of Citi, Credit Suisse and Deutsche Bank was tipped off before regulatory inspection](#)

The story dates back to 2016, when a Spanish bank, BBVA, was forced to solicit bids from other audit firms and switch from an audit relationship with Deloitte's Spanish firm due to European Union's mandatory audit rotation rules. Confidential information around those bids gave KPMG a secret advantage over rivals PwC and Ernst & Young, who were also eligible to bid on the BBVA audit.

The episode was described in the Securities and Exchange Commission's complaints against four former KPMG partners, a KPMG employee and a former Public Company

Accounting Oversight Board employee. The KPMG Spain partner involved was not named and the Spanish banks were not named. Use of another audit firm's confidential inspection data to pursue the BBVA audit was not outlined in the original criminal indictment.

Brian Sweet, a former partner at KPMG, used his contacts at the audit regulator PCAOB, which was his former employer, to obtain highly confidential data about the audits of BBVA and Banco Santander, according to a new document filed in the case.

Sweet and his PCAOB contacts had access to information about all the largest audit firms, not just KPMG. Sweet pleaded guilty on January 5 to conspiracy and wire fraud and is cooperating with the authorities.

Emails obtained during KPMG's internal investigation of the scandal were turned over to the prosecutors in the case against the former KPMG officials. The correspondence spells out how KPMG gained an advantage over its rivals.

KPMG Spain audit partner Dabie Tsai emailed Sweet on April 6, 2016, to thank him in advance for his help in the pursuit of the BBVA audit and invite him to discuss the "two Spanish banks we discussed just now."

Tsai provided Sweet with her personal email account and fax number "in case you want to use either."

Shortly thereafter, the document details, Sweet used his personal account to email Tsai's personal account and said, "Dabie, it was great chatting with you today! Attached are some examples of the types of issues that have been raised in the past."

Attached to the email was an internal and confidential PCAOB comment form for a KPMG competitor, Deloitte Spain, and its audit of Banco Santander that discussed specific ways in which Deloitte had failed to adequately test the valuation of its allowance for loan loss at that bank. PwC won the Banco Santander audit from Deloitte in 2016.

That same day, Tsai used her personal email account to respond to Sweet's personal email account saying "Thank YOU so much!!!! I have printed each out so it will only be on the hard copy that I read . . . I promise to take appropriate care of this. Appreciate all of your help — and I am sure you've heard it many times, but I am going to add it to all the other accolades — I am so glad you came to KPMG you've been a huge help to the firm . . . since you joined! . . . I'll be in touch re: our current proposal effort."

On May 10, 2016, Tsai emailed Sweet asking whether Sweet had "any updates on the BBVA Inspection front per our last conversation? Would really appreciate being able to get some details for consideration into highlighting (what not to do or what to do to prevent such) as appropriate in our written document if possible? Promise will be very sensitive and only discussing the technicals."

Tsai also offered Sweet a reward for his help on the bid for BBVA's audit—the job of "quality partner" on the engagement, if KPMG was successful.

BBVA did choose KPMG as its new auditor, switching from Deloitte, beginning in 2017. KPMG worldwide member firms charged BBVA 29.6 million euros (\$34.3 million) for its audits and other services in 2017.

Tsai was the partner who signed the audit for BBVA in 2017, according to PCAOB records.

A spokesman for KPMG U.S. told MarketWatch in an emailed response that “these activities were uncovered during KPMG’s investigation, and the findings were immediately and fully reported to the authorities by the firm last year.”

A spokesman for KPMG Spain added, “the proposal for the BBVA audit engagement was directed entirely by KPMG Spain. While KPMG Spain is aware that there is an ongoing investigation arising out of conduct by former KPMG personnel in the U.S., we are not aware of the specifics of that investigation. More importantly, we can state categorically that no confidential PCAOB information was used by KPMG Spain in the proposal process for BBVA, or anywhere else.”

Lynn Turner, the former SEC chief accountant, told MarketWatch that “these actions by those involved at KPMG, as well as the firm itself, in my opinion are egregious violations of the professional code [that] auditors who are CPAs are required to follow. They have failed to serve the public interest, failed to act with integrity and failed to exercise moral judgment. It is doubtful one can place trust in their audits when they engage in this behavior.”

A spokeswoman for BBVA said the bank declined comment. A spokesperson for Banco Santander did not reply to a request for comment.

A spokeswoman for Deloitte did not respond to a request for comment. And, a spokesman for Ernst & Young declined comment, as did a spokeswoman for PwC.



Fed set to deliver quarter-point rate hike along with ‘one last hawkish sting in the tail’

The Federal Reserve on Wednesday will hike rates by a quarter-point, a downshift from December but will make sure to say



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Francine McKenna is a MarketWatch reporter based in Washington, covering financial regulation and legislation from a transparency perspective. She has written about accounting, audit, fraud and corporate governance for publications including Forbes, the Financial Times, Accountancy and the American Banker. McKenna had 30 years of experience at banks and professional-services firms, including at PwC and KPMG, before becoming a full-time writer.