

## KPMG in the News

**K**PMG is rightly considered one of the top four accounting firms in the world. For the most part it deserves its high rating. Like most business entities, however, their performance is sometimes less than perfect. Two recent items in the news point out this truth about KPMG.

Last week, a jury in New Brunswick, NJ, found KPMG guilty in an accounting fraud trial brought by Cast Arts, Inc. Cast Arts had sued KPMG for professional malpractice and negligence for failing to detect massive financial fraud at Papel Giftware prior to Cast Arts acquiring Papel. The lawsuit was filed in 2003, and even though it took 5 years, the jury awarded Cast Arts **a record \$31.8 million in damages against KPMG.**

Also last week, KPMG and Price Waterhouse who jointly audited Fortis, the world's 20<sup>th</sup> largest bank, were implicated in the bank's failure. An article in the British newspaper THE GUARDIAN contained the following comment: "The basis of an audit is the assessment of risk," said forensic accountant Richard Murphy. "These people, I believe, fundamentally failed to assess risk. They were responsible. That's what their job was. They didn't do it. We have to look at different audit systems for the future.... **We can't rely on the big four.**"

Another article, this one in the British SUNDAY HERALD suggested that blame for the recent global financial crisis must be shared by the accounting firms who have been responsible for signing off on the accounts of many of the world's most dangerously exposed financial institutions. It pointed out the flawed practice of allowing auditors to be selected and paid by the company directors when the auditor's job is to report on the conduct of those directors. In many cases the auditors also act as business advisors to the directors. In particular the article pointed out that KPMG provides audit ser-

vices to many recently troubled banks including Wachovia, rescued by Wells Fargo last week. So, is KPMG all bad? No. But when Milt Johns assures us that KPMG has year after year given Laguna Woods Village an "unqualified clean audit" he should not expect the residents to be completely reassured. KPMG is flawed, and the fact that they have handled our audits for so many years raises a suspicion in the minds of many, that they may have lost the ability, or the will, to uncover fraud. This fraud (misuse of residents' fees), may **or may not** exist, but, are PCM and KPMG the best sources to rely on for an accurate answer ???!

Future KPMG action is forthcoming.

## THIRD MUTUAL'S BOARD OF DIRECTORS

**W**e start a new year with new faces on the Third Mutual Board of Directors. These new faces will undoubtedly bring new ideas to the board. Their backgrounds are varied, and need not be repeated here after review in the campaign flyers, publication in the Globe and other publications, appearances on television programs, and appearances before various organizations. All of the new directors present obvious competence. If the deliberations of the board are directed to the issues presented, and not to personalities, we can hope for significant progress in improving Third's administration, finances, and service.

Despite the occasionally obvious dissension and obstructionism, some progress was made in the last year. The source from the progress emanated need not be identified; it is known to all that attend committee meetings or that attend board meetings or watch replays on television. The important fact is that significant changes have occurred. Here are three examples: