

Corporate Culture and Its Influence on Accounting Practices: Lessons from KPMG and PwC in South Africa

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Kroeber and Parsons (1958) defined culture as “transmitted and created content and patterns of values, ideas, and other symbolic-meaningful systems as factors in the shaping of human behavior” (p. 583), while Siqi (n.d.) said that culture “denotes an historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which humans communicate, perpetuate, and develop their knowledge about and attitudes toward life” (p. 13). Hofstede (1989) viewed culture as significant in that it is “the collective programming of the mind which distinguishes the members of one category of people from another” (p. 391), (Prescott & Vann, 2015). Corporate culture, on the other hand, is a set of beliefs and behaviors that regulate how employees of a company and management should interact and perform; it influences the company’s hiring process, its performance as well as its productivity. Thus, business results are very dependent on enterprise culture. Corporate culture is also affected by national cultures, international trade, economic trends, company size, and products. It constitutes the core values of a company’s ideology from which its strategies derive. In essence, an accounting firm is a company that helps its clients make sure their financial transactions are accurate and legal. The particularity of South Africa (SA) with the audit profession resides in the expectation that in addition to the auditor’s duty to express an opinion on a client’s financial statements, the external auditor is also expected to highlight ‘reportable irregularities’ to the attention of an independent regulator: the Independent Regulatory Board for Auditors (IRBA) (Maroun & Atkins, 2012). The review of the Gupta family and the South African Airways (SAA) financial scandals in SA led us to study their unethical business collaborations

By focusing primarily on the pursuit of higher profits, many companies, including accounting firms, have unfortunately ignored their values and missions, which has often led to financial scandals.

with KPMG and PwC between 2012 and 2017. The dishonor in which these two accounting firms were involved has damaged their reputation and that of the accounting profession. The adoption of the culture of wealth creation at any cost has induced these two accounting firms in SA to behave like any other business in the pursuit of higher profits. Like many other corporations, KPMG and PwC had developed a recurring trend of protecting their gains at any cost, as they were willing to increase their profits through indulgence in price fixing, tax avoidance/evasion, bribery, corruption, money laundering and practices that show little regard for social norms and even laws (Sikka, 2008). Some accounting firms seem to have little hesitation in shredding key documents to aid their clients or conceal their own role in some debacles. They are on a collision course with civil society, their involvement in bribery and corruption forces ordinary consumers to pay higher prices and degrades the quality of life for millions of people (Sikka, 2008). On numerous occasions, accounting firms have unfortunately been involved in financial scandals while auditing or advising their clients. This growing trend may be due to the fact that accounting firms have abandoned their original values and mission in favor of seeking higher profits. The involvement of KPMG and PwC in financial controversies in South Africa is just one example. Accounting firms whose services are not limited to auditing their clients often find themselves in a conflict-of-interest situation when they act as both auditors and consultants for the same clients (Sikka, 2008). Therefore, the link between the pursuit of higher profits and the involvement of accounting firms is clearly evidenced by the examples of KPMG and PwC’s involvement in financial scandals in South Africa between 2012 and 2017.

Keywords: Corporate culture, Accounting scandals in South Africa (SA), Tax avoidance/evasion, Bribery, Corruption, Money laundering.

Jeto Zumalo was a member of the Free State Farmers of South Africa; like many of his fellow farmers, his production took a big hit with a recent drought in the region caused by the impact of climate change. The only hope he had to protect his work from this natural catastrophe was to build an irrigation system from well water that would be used in drought seasons.

For the past two years, Zumalo and the other farmers were waiting for a financial support promised to them by the South African government. Like any of these poor farmers, it was the support Zumalo and his farmers colleagues were counting on to maintain their small farms in business and keep their families out of extreme poverty. Unfortunately, every follow-up done on the government promise by the farmers was served with silence. No one knew exactly what was going on until that day in 2016 when the incident involving the Gupta family and KPMG was revealed to the public.

At the same time the KPMG controversy was happening, Pricewaterhouse Cooper LLP (PwC), was in its turn also implicated in an accounting controversy with its client, the South African Airways (SAA), leading its joint audit partner, Nkonki Incorporated, to a voluntarily liquidation in April 2018.

Not wanting to frustrate their clients with whom they maintained long-standing relationships, and not wanting to risk losing eventual business revenues, both accounting firms failed to mention any malpractices of their clients for years, and even helped them by producing inaccurate financial reports in their favor, consequently misleading the public and all their clients' stakeholders.

These examples of accounting unpleasant incidents involving two of the "Big 4", namely KPMG and PwC, illustrate very well how the quest for higher profits can impact the practice of a noble profession such as accounting.

Review of Research and Theory

Historical Context and Theoretical Evolution

The theory of corporate culture has evolved significantly, emphasizing its influence on organizational behavior and decision-making. Initially, Kroeber and Parsons (1958) defined culture as "transmitted and created content and patterns of values, ideas, and other symbolic-meaningful systems as factors in shaping human behavior". This concept provided the foundation for understanding how culture shapes organizational actions. Hofstede (1989) expanded this idea by introducing the notion of culture as "the collective programming of the mind," highlighting the impact of national and organizational cultures

on individual behaviors and corporate outcomes.

In the context of accounting and auditing, the commercialization of accountancy, as discussed by Hanlon (1994), introduced a critical lens to view the intersection of professional ethics and profit motives. Hanlon argued that the increasing focus on profitability has transformed accountancy into a service-oriented, profit-driven profession rather than one grounded in public interest.

Application of Theoretical Perspectives

The theories of culture and enterprise commercialization are directly applicable to understanding the business problems highlighted in this study, particularly the controversies involving KPMG and PwC in South Africa. These cases demonstrate how a profit-centric corporate culture can lead to ethical lapses and systemic failures in accountability. For example, KPMG's involvement with the Gupta family shows how a culture focused on wealth creation at all costs led to complicity in unethical practices such as tax evasion and bribery.

Similarly, PwC's role in the South African Airways case underscores the conflict of interest inherent in providing both audit and consultancy services to the same client. The firm's prioritization of maintaining lucrative client relationships over its ethical obligations illustrates the dangers of an overly commercialized enterprise culture.

Justification for Theoretical Validity

The relevance of these theoretical lenses lies in their explanatory power for understanding and addressing the recurring failures in corporate governance and auditing. The commercialization framework provides insights into how profit-driven motives erode professional integrity. Meanwhile, cultural theories illuminate the systemic nature of these issues, suggesting that interventions must address not only individual behaviors but also organizational norms and incentives.

These perspectives are particularly compelling given the global nature of accounting controversies, as seen in cases such as the Wirecard fraud in Germany and the Enron debacle in the United States. The cross-cultural applicability of these theories validates their utility in diagnosing and preventing similar issues across different regulatory and cultural contexts.

The Case

This case draws on information from available financial websites such as Bloombergtax.com, the Financial Times (ft.com), accountancyage.com, and globenewswire.com, to highlight the crisis faced by the auditing industry in SA and its impact on public life.

In SA, there are profiles of 18 companies including the “Big 4”, PwC, Deloitte, EY and KPMG, as well as other prominent companies including BDO and Mazars, and a few smaller firms.

Among the many publicly available African cases highlighting the link between wealth creation by the pursuit of higher profits (a core value of corporate culture) and accounting firms, I found these two cases to be worth mentioning, as they involved two members of the “Big 4”.

KPMG role in the 2016 Gupta family controversy in South Africa

In 2017, Bloomberg, Accountancy Age, Financial Times, and many other local newspapers informed the world about the 2016 Gupta Gate in South Africa involving KPMG; it was shocking to learn that a highly regarded accounting firm like KPMG would be part of a financial incident in which its modus operandi would be to satisfy their client’s demands, be it by accepting bribery, supporting corruption, or promoting tax avoidance.

The Gupta were immigrants from India and South Africans citizens who became so successful and rich especially by maintaining close ties to the inner circle of the previous president, Jacob Zuma. The Gupta family was so powerful that they were referred to as South Africa’s “shadow government” by some politicians, such as Zwelinzima Vavi, the former General Secretary of the Congress of South African Trade Unions. It was also alleged that the family exerted undue influence over government policies and dictated high-level governmental appointments in exchange for commercial opportunities. The Gupta family’s empire ranged across multiple sectors, including technology and mining, and for 15 years, KPMG audited Gupta’s companies, finally terminating the relationship in 2016 amid growing concerns about the family’s links to the then president, Jacob Zuma.

In 2013, one corruption allegation against the family was directly linked to the wedding of a Gupta family member, in such a manner that it was later brought to the public attention that the family was allegedly funded with R30-million (approximately 1.7 million \$US) of taxpayers’ money. The money transaction to the Gupta family was done through the funneling of funds intended for poor Free State farmers through Dubai and then repatriating the funds to South Africa through the Gupta’s company Linkway Trading Pty Ltd., thus leaving Jeto Zumalo and many of the poor Free State Farmers to struggle for survival. The Guptas allegedly claimed these as business expenses and did not pay any income tax. As auditors of Linkway, KPMG failed to recognize any wrongdoing. Furthermore, four KPMG partners attended the Gupta wedding. Linkway accounts did not provide any information about its involvement in anti-social

practices, such as money laundering, tax avoidance/evasion, bribery, and corruption, or their social consequences.

Anti-social practices, as it could be seen with the case of Free State Farmers, have negative effects on ordinary people’s quality of life and their access to material and symbolic goods and services (Sikka, 2008).

It was also alleged that KPMG facilitated the Guptas’ tax evasion and corruption. One allegation relates to KPMG’s involvement in the valuation of Oakbay Resources and Energy Limited (ORE) in 2014 at the time of its listing, where it has been alleged that the share price was fixed. KPMG claimed its involvement did not include providing a valuation.

Another allegation was based on the firm’s involvement in the Gupta’s interest in acquiring the Optimum Coal Mine (OCM) from Glencore. KPMG claimed that it provided “limited transaction support services” but admitted that “during the course of the engagement KPMG South Africa became aware of information that called into question the integrity of the Guptas” which was “not adequately dealt with by several senior leaders in the firm and was not considered when assessing whether to continue to perform work for the Gupta group.

KPMG conceded the following about the audits of Gupta companies: “Fell well short of the quality expected, and that the audit teams failed to apply sufficient professional skepticism and to comply fully with auditing standards”, particularly in relation to the company Linkway Trading Pty Ltd.

Even though Firm policy dictated annual reassessment of their clients, the Gupta family’s business dealings were not reassessed as required. KPMG said: “In relation to the Guptas, over a number of years this process lacked the necessary rigor.”

In a statement from September 2017, KPMG said: “KPMG South Africa regretted that its association with the Guptas and their business entities went on for far too long.”

PricewaterhouseCoopers LLP (PwC) role in the South African Airways (SAA) controversy

In 2017, the South African Independent Regulatory Board for Auditors (IRBA) revealed the SAA and PwC incident, after investigating it for its failure to disclose blips in the conduct of the “entity”, its client SAA.

PricewaterhouseCoopers LLP, audited SAA for five years between 2012 and 2017, at times in conjunction with Nkonki Inc. In January 2022, an SAA’s former auditor admitted that PwC failed in its responsibility as an overseer when it audited the books of the airline company between 2012 and 2016.

The first section of the State Capture Inquiry report, released, found that during these five years, the airline's board was in a state of "precipitous governance decline" and was engaging in numerous acts of corruption and fraud. The report found that PwC failed to devise audit procedures to detect corruption or irregular tenders.

In the 2016/2017 financial year, the airline's audit was taken over by the office of the Auditor General (AG). The AG changed the airline's audit outcome from clean to a qualified audit with findings. According to the report, the AG found that "vital documents" required under international standards for aircraft, as well as other "critical source documents", were missing from the audit files.

"It took the intervention of the Auditor General to finally expose these deep deficiencies," the report found.

PwC and its joint audit partner, Nkonki Incorporated, gave the state-owned airline unqualified audits for each of the five years they provided external audit services. This meant that, in their view, SAA's financial statements were free from material misstatements caused by fraud or error. Nkonki Inc. was voluntarily liquidated in April 2018.

PwC and its South African audit partner, Nkonki, were paid more than R69 million (3.9 million \$US) in fees for auditing SAA's books between 2013 and 2016. The report of the South African chief justice confirmed that this spending was irregular, because the proper legal processes for their allocation was followed only for 2012.

It was clear that PwC was either not equipped to assess or was just not particularly concerned about the peculiar requirements and obligations associated with a public entity and ensuring that irregularities that contravened the Public Finance Management Act and other procurement legislation were carefully investigated and reported on. One would be tempted to say that PwC and its audit partner did not want to deceive their client.

It was then easy to understand that PwC was more interested in what they had to gain than acting as a watchdog. By failing to do their job as required, they not only damaged their own reputation and that of the noble accounting profession, but they also eroded the trust the public had in SAA.

Discussion

As per its definition, corporate financial reporting is the end set of information in a given business produced from the books of accounts and submitted for auditing according to defined standards. Accounting involves recording transactions in books of account, analyzing the accounting information, and preparing reports for use by investors, creditors, and em-

ployees, as well as by regulators and taxation authorities after an audit report is issued.

Investors and lenders on the other hand need reliable financial information that will help them make sound decisions about financing. Thus, good corporate financial reporting helps promote investment, develop markets, and improve access to credit. Along with strong accounting and audit practices, it is essential to a country's efforts to build confidence and improve the business climate and thus increase its competitiveness and economic growth (Msadek, 2009).

In this manner, accounting firms are responsible for validating the financial statements of companies prepared for the sole purpose of informing all those interested in the companies' financial positions. To do this, professional accountants follow International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Practices (GAAP). Incorrect or false financial reporting misleads stakeholders in their decision-making process and could have a devastating impact beyond the scope of the company as we had seen in the KPMG and PwC in South Africa.

By failing to apply the necessary rigor over several years while auditing their clients, KPMG and PwC have shown a lack of professionalism that could only be explained as a way of trying to protect their long-standing friends for their wrongdoings as it was impossible for them not to see their clients' irregularities for 5 years. In this manner, protecting their revenue stream was more important to KPMG and PwC than applying the required professional rigor.

The incidents involving KPMG and PwC respectively with the Gupta family and SAA led us to understand that the pursuit of gain at any cost has caused accounting firms to fail to do their main duties as auditors and watchdogs while working for their clients. Their pursuit of higher profits became their core value, a culture, to the point that they were acting according to the demands of their clients to make more money, hoping that their deceiving acts would never be discovered.

Unfortunately, many of the auditors/clients' relationships are deep-rooted business associations in which members of the accounting firms are sometimes also employed as consultants in addition to be employed as auditors, this leading to a very uncomfortable situation. In on the Johannesburg Stock Exchange (JSE) are audited by one of the "Big 4" (PwC, EY, KPMG and Deloitte). The price paid by the public for audit failure is immense. It has resulted in job losses, the failure of several large corporations and vast losses for pensioners and other investors (Marchant & Mosiana, 2020).

It appears that making profits by 'bending the rules' has become the normal way of functioning in cor-

porate culture, and accounting firms are not exempt from such practices, since their priority is very strongly associated with commercial activities. They would rather perform a service for their customer than inform all their clients' stakeholders with accurate reports about the true financial state of their customers. Very often, employees of major accounting firms are taught to prioritize the interests of clients, and many of them choose to follow the directives of their upper management knowing that their career progression depends on this (Sikka, 2008).

According to the South African Corporations and Economic Crime Report (CECR) published by Open Secrets organization in June 2020 – volume 2, the “Big 4” audit firms – Deloitte, EY (formerly Ernst & Young), KPMG and PwC have all played a systemic role in economic crimes and State Capture. The evidence suggests that these firms have prioritized profit over professional duties and the law.

Of the “Big 4”, KPMG, PwC and Deloitte have all been publicly implicated in instances of corporate fraud and state capture in South Africa. EY has not been in the local headlines. As such, one might assume that EY is the most trustworthy of the Four, that is until one examines the international financial media. There you find a laundry list of illicit dealings by the firm – including allegations of fraud, tax evasion, money-laundering, sexism, and whistle-blower intimidation (Marchant & Mosiana, 2020).

Even though accounting firms distinguish their expert labor from competitors by appealing to claims of professionalism and ethical codes, they too are capitalist organizations whose success is measured by increases in fees and profits (Sikka, 2008).

The competitive nature of the audit work environment has pushed accounting firms, especially the “Big 4”, to aggressively fight for business share. To increase their business revenue, some accounting firms do not hesitate to promote additional services to their clients, such as tax schemes (Sikka, 2008).

Since making profits by ‘bending the rules’ is an important characteristic of enterprise culture, accounting firms may also be open to such practices, especially as their “emphasis is very firmly on being commercial and on performing a service for the customer rather than on being public spirited on behalf of either the public or the state” (Hanlon, 1994, p. 150).

Unfortunately, the accounting controversies are not only limited to South Africa, since it looks like there is a global trend that seems to become the norm in the industry. EY's involvement in the Wirecard financial controversy in Germany in 2020, as well as Arthur Andersen LLP's involvement in the Enron scandal in 2001, are just a few of the most shameful events in the history of the accounting industry.

Conclusions

This paper investigates whether enterprise culture of pursuing higher profits impacts the functioning of accounting firms. Using the examples of KPMG's and PwC's involvement in the Gupta family and SAA scandals in SA, we find that by pursuing higher profits, accounting firms have openly embraced the dark aspect of corporate culture which is the pursuit of higher profits at any cost, as they have moved away from their main mission which is to give a professional and independent opinion about processes, transactions, or other information leading to the preparation of financial statements. Accounting firms have become key players in the contemporary enterprise culture and have shown a willingness to indulge in questionable practices not only to increase their clients' but also their own profits (Sikka, 2008).

Auditors do audits, and all stakeholders should be able to trust their opinion. Unfortunately, audit work becomes extremely difficult when an accounting firm tries to put out of sight the irregularities they find while auditing their clients. It is sad that an auditor does not feel it necessary to inform anyone of the inconsistencies he or she has discovered during the course of the audit.

Generally, if the audit mission is embraced by the auditors, business owners would use the auditors' feedback as tools to improve their financial processes and procedures - and create a culture of integrity from the top that discourages fraudulent activity and hold both management and employees accountable in the execution of their roles and responsibilities. This can be achieved only if auditors maintain a strict professional relationship with their clients.

To keep commercially lucrative consultancy services, accounting firms have created long-standing relationships with their clients, which in turn have influenced their audit work. This has also to a certain extent compromised the credibility of the auditing side of the firm. The decline in the quality of audits performed by the “Big 4” suggests that the “Big 4” are failing to strike and maintain the balance between credibility and customer service (Marchant & Mosiana, 2020).

Finally, poor accountability, specifically the failure of certain major auditing firms to report financial malpractice and fraud involving private companies and public entities, has resulted in a credibility crisis for the auditing profession in SA. Accounting firms that provide low-quality audits suffer real reputational consequences (Gul et al., 2023).

The controversies relating to fraud and financial irregularities involving the accounting firms' clients have highlighted the shortcomings of the external audit and various stakeholders have now called for audit reforms in SA.

This paper supports the idea that the quest for higher profits explains how accounting firms can be led into financial scandals.

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Review

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