

Accounting Quality Insights

Auditor Ratification Alert: General Electric Co. [GE]

This alert indicates that the shareholders have recently voted in significant numbers against the ratification of the company's auditor.

The proportion of votes against auditor selection is **negatively associated** with institutional ownership and stock return.

-Sainty et al. (2002)¹

Auditor Ratification

Company	General Electric Co. [GE]	Filing	2019-05-13 8-K
Location	Boston, Massachusetts	CIK	40545
Revenue	\$121,114 M	Market Cap	\$87,208 M
Industry	Electronic & Other Electrical Equipment		
Auditor	KPMG LLP (since 1909)		
Votes Against	721,308,127 (11.30%)		
Share Class	NA		

Frequency of Votes Against Auditor Ratification

Bin	Frequency	
1.00%	8,154	
2.00%	2,120	
3.00%	797	
4.00%	346	
5.00%	197	96.1%
10.00%	325	
15.00%	72	
20.00%	30	
25.00%	22	99.8%
>25%	22	
TOTAL	12,085	



On **May 13, 2019**, General Electric Co. [GE] filed a current report with the SEC disclosing the voting results from the Company's recent annual meeting of shareholders. For the year ended December 31, 2019, 11.30% of shareholders voted against the ratification of the Company's auditor.

This is the second year in a row that the shareholders have voted in significant numbers against the ratification of the Company's auditor; for 2018 nearly 35% of shareholders voted against ratification. So far in 2019, GE is only one of four companies with a market cap over \$1 billion that had a significant vote against auditor ratification in both 2018 and 2019. The other three companies with two consecutive years of more than 5% vote against auditor ratification are Actuant Corp [ATU], Advanced Drainage Systems, Inc. [WMS] and Salesforce.com Inc [CRM]

GE's Audit Committee began an audit tender **process** in December 2018 with the intention of appointing an independent audit firm after only 65% of shareholders voted in favor of ratification of the auditor in 2018. Currently GE's stock opened at \$9.90, a price that is only 7.6% above the 52-weeks low of 2009.

Auditor Ratification History

Vote Date	Auditor	Votes For	Votes Against	Votes Abstain	Year Ended
2019-05-08	KPMG	5,634 M (88.28%)	721 M (11.30%)	23 M (0.41%)	2019-12-31
2018-04-25	KPMG	4,165 M (64.58%)	2,254 M (34.94%)	31 M (0.48%)	2018-12-31
2017-04-26	KPMG	6,329 M (94.30%)	215 M (3.21%)	167 M (2.49%)	2017-12-31
2016-04-27	KPMG	6,693 M (94.18%)	198 M (2.78%)	216 M (3.04%)	2016-12-31
2015-04-22	KPMG	7,367 M (94.94%)	179 M (2.30%)	214 M (2.76%)	2015-12-31
2014-04-23	KPMG	7,340 M (94.50%)	187 M (2.41%)	240 M (3.09%)	2014-12-31
2013-04-24	KPMG	7,668 M (94.51%)	201 M (2.47%)	244 M (3.01%)	2013-12-31
2012-04-25	KPMG	7,879 M (94.40%)	203 M (2.43%)	265 M (3.18%)	2012-12-31
2011-04-27	KPMG	8,049 M (97.44%)	147 M (1.78%)	64 M (0.78%)	2011-12-31

For more information on auditor ratification votes for General Electric, see the following published by Audit Analytics in April 2018:

The Shareholder's Role in Auditor Ratification
General Electric Shareholders Vote to Reappoint Auditor Despite One-Third Opposition

This is a condensed selection of accounting, control and related events for General Electric. For an extended history, please [contact us](#).

General Electric Co. [GE] – History of Accounting, Control & Related Events

Disclosure Date	Filing	Event	Disclosure
2019-05-13	8-K	Vote Against Auditor Ratification	11.30% of shareholders voted against ratification of auditor
2019-04-30	10-Q	Change in Accounting Estimates	Change in accounting estimates related to contract and other deferred assets, primarily within Aviation segment, had a positive \$150 million impact on pre-tax earnings
2019-02-26	10-K	Change in Accounting Estimates	Change in accounting estimates related to contract and other deferred assets, primarily from decline in new orders with Power unit, had a negative \$203 million impact on pre-tax earnings
2019-02-26	10-K	Impairment	Goodwill impairment charge in the amount of \$22,136 million recorded related to Power Generation unit, Grid Solutions unit, and Digital acquisitions
2019-02-26	10-K	Impairment	Impairment charge in the amount of \$428 million recorded related to Power Conversion business within Power segment
2019-01-31	Press Release	DOJ Investigation FIRREA	GE reached agreement with DOJ to settle FIRREA matter related to subprime mortgages. GE to pay \$1.5 million civil penalty
2018-12-14	Press Release	Auditor Tender Process	GE's Audit Committee plans to move toward tender process for the appointment of independent audit firm; only 65% of shareholders voted in favor of ratification of auditor in April 2018, but the Audit Committee determined to reappoint auditor for 2019
2018-12-12	Press Release	Acquisition Agreement ServiceMax	Plan announced for GE Digital to sell majority stake in ServiceMax, to Silver Lake. GE will retain 10% equity ownership in ServiceMax. GE Digital acquitted ServiceMax 2016-11-14 for \$915 million
2018-10-30	Earnings Call	SEC & DOJ Criminal Investigation	After announcement of expected non-cash goodwill impairment charge related to GE's Power business, SEC and DOJ opened a criminal probe into GE's accounting practices, including timing of the impairment charge
2018-10-30	Press Release	Quarterly Dividend Change	GE plans to reduce quarterly dividend to \$0.01 per share, expected December 2018
2018-10-04	8-K	CEO Departure	Chief Executive Officer/Chairman of the Board, John L. Flannery, departed from the Company
2018-10-01	Press Release	Impairment	Non-cash goodwill impairment charge anticipated in the amount of approximately \$22 billion (\$19 billion related to GE Power Gen, \$3 billion related to GE Grid). Charge primarily related to Alstom acquisition
2018-07-27	10-Q	Change in Accounting Estimate	Revenue recognition-related change in accounting estimates had a positive \$133 million impact on year-to-date pre-tax income
2018-07-26	8-K	Chief Accounting Officer Departure	Chief Accounting Officer/Controller/VP, Jan Hauser, departed from the Company
2018-06-26	Press Release	Strategic Review Results	GE announced results of strategic review. Company will focus on Aviation, Power and Renewable Energy, separate GE Healthcare into standalone company, and separate from BHGE
2018-05-21	8-K	Business Combination Wabtec	GE Transportation merged with Wabtec to create a business focused on rail equipment, services and software
2018-05-01	10-Q	Change in Accounting Estimate	Revenue recognition-related change in accounting estimates had a positive \$178 million impact on pre-tax earnings
2018-05-01	10-Q	WMC Mortgage Exit	GE disclosed the possibility that WMC Mortgage could be placed in bankruptcy if the Company loses legal proceeding regarding indemnifications on mortgage-backed securities
2018-04-30	8-K	Vote Against Auditor Ratification	34.94% of shareholders voted significantly against ratification of auditor
2018-04-20	Press Release	DOJ Investigation FIRREA	GE recorded reserves of \$1.5 billion for potential liabilities from DOJ investigation in connection with subprime mortgages issued by WMC Mortgage between 2004-2007

General Electric Co. [GE] – History of Accounting, Control & Related Events

Disclosure Date	Filing	Event	Disclosure
2018-02-23	10-K	Out-of-Period Adjustment	Company corrected immaterial errors related to currency translation by taking a charge in current period
2018-02-23	10-K	Impairment	Goodwill impairment related to Power Conversion reporting unit in the amount of \$1.1 billion recorded
2018-02-23	10-K	Impairment	Property, plant, equipment impairment related to GECAS business of GE Capital in the amount of \$145 million recorded
2018-02-23	10-K	Impairment	Other-than-temporary impairment on investment securities in the amount of \$8 million recorded
2018-02-23	10-K	Change in Accounting Estimate	Revenue recognition-related change in accounting estimates had a positive \$2.1 billion impact on year-to-date pre-tax income
2018-01-24	Earnings Call	SEC Investigation Reserve Increase, Accounting Practices	SEC investigating insurance reserve increase and process leading up to reserve increase in addition to revenue recognition practices and internal controls relating to long-term service agreements
2018-01-16	Press Release	Insurance Reserve Increase	GE initiated review of insurance portfolio beginning mid-2017 to re-evaluate actuarial assumptions of long-term care legacy reinsurance business. After review, GE took an after-tax charge of \$6.2 billion (\$7.5 billion at a 21% tax rate) GE Capital expected to contribute approximately \$15 billion cash to insurance subsidiary through 2024
2017-11-13	Press Release	Quarterly Dividend Change	Company plans to reduce quarterly dividend by 50%, from \$0.24 to \$0.12 per share), expected December 2017
2017-10-30	10-Q	Revision Restatement	Company revised financial statements for period beginning 2015-01-01 to 2017-06-30 to correct immaterial errors related to operating cash flow
2017-10-30	10-Q	Change in Accounting Estimate	Revenue recognition-related change in accounting estimates had a positive \$649 million impact on pre-tax earnings; \$1,930 million year-to-date impact
2017-10-20	Earnings Call	Adjusted EPS Change	CFO, Jamie Miller, reported intent to conform GE definition of free cash flow to the industry standard after reporting four different EPS metrics in Q3 2017 earnings; 6% of S&P 500 companies use more than one non-GAAP EPS metric
2017-10-10	8-K	CFO Departure	Jamie S. Miller became Chief Financial Officer, succeeding Jeffrey S. Bornstein, effective 2017-11-01. Mr. Bornstein remained as Vice Chairman through 2017-year end
2017-07-28	10-Q	EC Investigation R&D Activities	European Commission (EC) issued statement of objections regarding GE acquisition of LM Wind; preliminary conclusion alleges GE provided incorrect or misleading information about R&D activities
2017-07-13	Press Release	Merger Agreement Baker Hughes	GE Oil and Gas formed partnership with Baker Hughes, forming BHGE. GE has 62.5% interest in partnership, Baker Hughes shareholders have 37.5% interest
2017-06-12	Press Release	DOJ Agreement Baker Hughes Merger	Agreement with DOJ allows Baker Hughes and GE to complete proposed merger transaction; GE agreed to divest its GE Water & Process Technologies business
2017-06-12	8-K	CEO Departure	John L. Flannery became Chief Executive Officer, succeeding Jeffrey R. Immelt, effective 2017-07-31. Mr. Immelt remained Chairman of the Board through 2017-year end. CEO succession planned since 2011
2017-03-30	Press Release	GE Capital Exit	GE Capital completed global exit from consolidated supervision by the UK's Prudential Regulation Authority. Company reports they have largely completed the process of selling \$200 billion of GE capital non-core business
2017-03-06	Press Release	DOJ Investigation Baker Hughes Merger	DOJ requested more information from GE in connection with pending combination of GE Oil and Gas with Baker Hughes
2017-02-24	10-K	Impairment	Other-than-temporary impairment on investment securities in the amount of \$31 million recorded
2017-02-24	10-K	Change in Accounting Estimate	Revenue recognition-related change in accounting estimates had a positive \$2.2 billion impact on pre-tax earnings

Characterization

While shareholders have the option to vote on their company's auditor, the outcome is almost never in dispute. An analysis of shareholder votes filed between January 1, 2015, and December 31, 2017, shows that, on average, 98.7% of votes were cast in favor of auditor ratification. The remaining 1.3% is comprised of votes against auditor ratification (0.9%) and abstained votes (0.4%).

An investor should take note whenever shareholders cast significant votes against auditor ratification. As noted by a recent Audit Analytics' blog, fewer than 5% of votes were cast against the auditor 96 out of 100 times.ⁱⁱ

Accounting Quality Insights

Accounting matters, estimates, and changes are crucial in understanding the complete financial picture of a business. Accounting Quality Insights, an Independent Research solution powered by Audit Analytics provides independent research for investors. Our reports cover accounting, control, and related governance matters with in-depth, data driven analyses.

Subscription includes:

- Company focused critical accounting reviews
- Event driven alerts
- Macro and sector level trends-based research reports
- Analyst access and bespoke research
- Access via Bloomberg, Eikon, FactSet, and S&P Global

info@auditanalytics.com
774.728.3277

Legal Disclosure and Disclaimer

Audit Analytics, a service of IVES Group, Inc., is an independent data and research provider, not a registered broker dealer nor an investment, accountant, tax, or legal advisor. The information provided in this, or any Audit Analytics report, is not a solicitation of any security. Although Audit Analytics provides information it believes to be reliable, Audit Analytics makes no representation or warranty, expressed or implied, regarding the information's timeliness, accuracy, suitability, or completeness. Likewise, Audit Analytics makes no representation or warranty, expressed or implied, regarding the content of the corporate disclosures that may be referenced in a report. Please be aware, that each report is a separate and distinct work product based on different assumptions, methodology, and focus and thus past and future reports may provide observations and judgments that are inconsistent with the instant analysis. Under such circumstances, Audit Analytics is not obligated to advise you of the inconsistencies. Furthermore, the information provided by Audit Analytics is of a general nature without consideration of particular circumstances and is not, nor should be construed as investment advice or used as a personal recommendation to buy, sell, or hold any security. Audit Analytics is not predicting the performance of any security and is not liable for any consequence, financial or otherwise, that may result from any reliance on the information provided. If you are interested in a securities transaction, Audit Analytics highly recommends that you consult an independent investment advisor so as to understand all the risks involved.

ⁱ <http://journals.sagepub.com/doi/10.1177http://journals.sagepub.com/doi/10.1177/0148558X0201700202/0148558X0201700202>

ⁱⁱ <http://www.auditanalytics.com/blog/a-closer-look-at-votes-against-auditor-ratification>