

Division of Enforcement and Investigations: Overview and Update

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Division of Enforcement and Investigations
PCAOB Investor Advisory Group Meeting
October 10, 2023

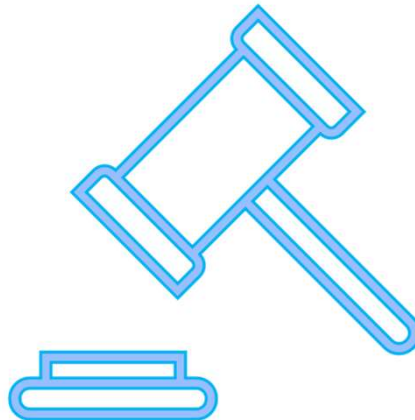
DISCLAIMER

The views we express are our own and do not necessarily reflect the views of the Board as a whole, any individual Board members, or other staff.

Opening Remarks From Michael Davis

Strengthened Enforcement Program

- Rigorous enforcement of standards, rules, and laws
- Making Sanctions count
- Expanding how DEI identifies cases
- Expanding the types of cases pursued

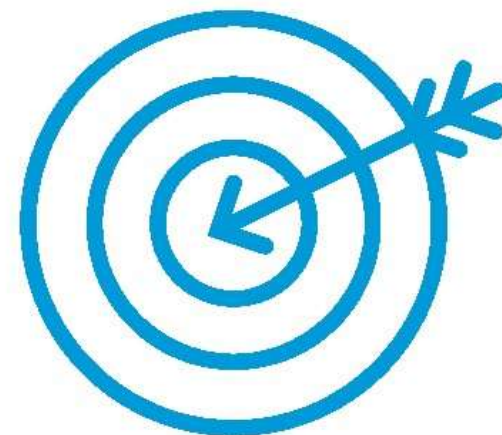


WHAT WE DO

- The Board may investigate possible violations by registered public accounting firms or their associated persons of any provision of the Sarbanes-Oxley Act, the rules of the Board, the provisions of the securities laws relating to the preparation or issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or PCAOB standards
- The Board may impose a variety of sanctions if violations are found
- The Board exercises its investigative and enforcement authority through DEI

PRIORITIES

- DEI continues to prioritize:
 - Investigations involving significant audit violations presenting risks to investors
 - Matters threatening or eroding the integrity of the Board's regulatory oversight process
 - Audit matters relating to significant independent violations
- DEI is also focusing on:
 - Matters relating to deficiencies in firm quality control policies and procedures
 - Expanding the types of cases we pursue (*e.g.*, a single act of negligence where conduct is serious)



RANGE OF POSSIBLE SANCTIONS

- In a disciplinary proceeding, the Board may:
 - impose a civil monetary penalty
 - suspend or permanently bar an individual from association with a registered public accounting firm
 - temporarily or permanently revoke a firm's registration
 - temporarily or permanently limit the activities, functions, or operations of a firm or person
 - require undertakings, such as additional professional education or training, changes to policies
 - appoint an independent monitor or consultant
 - impose a censure, and/or any other sanction per Board rules

EFFECTS OF SUSPENSIONS AND BARS

- It is unlawful for any person that is suspended or barred to become or remain associated with any registered firm or with any issuer, broker, or dealer in an accountancy or a financial management capacity
- It is unlawful for any registered firm, issuer, broker, or dealer that knew, or, in the exercise of reasonable care should have known, that a person is suspended or barred from association to permit such association

COORDINATION WITH THE SEC

- PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Act
- Coordination with SEC Enforcement is standard practice
 - Parallel investigations: PCAOB investigates auditor conduct; SEC investigates public company, its management, and others
- PCAOB may defer its auditor investigation to the SEC or vice versa



PROGRAM STATISTICS FOR 2022 – OVERVIEW

Overview of 2022 Published Enforcement Orders

- 42 public enforcement orders issued (41 settled, 1 adjudicated), double the number of orders in 2021
- More than half of the public enforcement issued in 2022 were against firms or individuals outside the United States

PROGRAM STATISTICS – ANNUAL TRENDS

	2020	2021	2022	2023 *
Settled Enforcement Orders	17	21	41	24
Total Civil Money Penalties	\$1.5M	\$1.1M	\$10.9M	\$7.6M

* Through September 30, 2023

The PCAOB's 2022-2026 Strategic Plan has sought to strengthen the Enforcement Program, including through:

- Rigorous enforcement of standards, rules, and laws
- More significant sanctions

Highlights from 2022 enforcement activity

- Imposed the largest penalty against an individual in PCAOB history
- Took the PCAOB's first action for failure to supervise personnel under Section 105(c)(6) of the Sarbanes-Oxley Act
- Imposed the PCAOB's first sanctions for failing to supervise an unregistered firm
- Settled the first action involving both a permanent bar and significant penalty
- Imposed highest total penalties in PCAOB history

MATTERS RELATING TO DEFICIENCIES IN FIRM QUALITY CONTROLS

- Since at least 2019, the DEI has focused on matters relating to deficiencies in firms' quality control policies and procedures
 - Firms have responsibilities to ensure its personnel comply with the professional standards applicable to its accounting and auditing practice
 - A system of quality control provides firms with reasonable assurance that their personnel comply with applicable professional standards and the firm's standards of quality
- During 2022 through September 30, 2023, the Board settled matters involving quality control standards violations with twenty-five U.S. or International firms

IN THE MATTER OF MARCUM LLP

(PCAOB RELEASE NO. 105-2023-005 – JUNE 21, 2023)

- From Jan. 2020 to Oct. 2021, Marcum accepted a substantial number of new audit clients, including hundreds of SPAC audits, resulting in an increase in audit reports issued from 2020 to 2021 of 225%
- Marcum, however, did not substantially increase its headcount over this same period and failed to properly consider whether it had the capacity to complete these engagements with professional competence
- The increased workloads led to failures to comply with applicable professional rules and standards, including hundreds of audits where work paper documentation was not prepared and archived timely; numerous audits with late Form AP filings; and a failure to perform appropriate risk assessments on SPAC audits

IN THE MATTER OF MARCUM LLP

(PCAOB RELEASE NO. 105-2023-005 – JUNE 21, 2023)

The PCAOB found the firm's QC system failed to provide reasonable assurance its personnel would comply with applicable professional standards, including:

- To undertake only those engagements it could reasonably expect to complete with professional competence, given partner and staff workloads
- To timely assemble complete and final sets of audit documentation
- To timely file Form APs
- To perform procedures to identify and assess the risks of material misstatement at the assertion level
- To consult when dealing with complex issues
- To properly evaluate whether certain matters should be reported as critical audit matters
- To make all required audit committee communications

IN THE MATTER OF MARCUM LLP

(PCAOB RELEASE NO. 105-2023-005 – JUNE 21, 2023)

Sanctions included:

- \$3 million civil money penalty (largest for a non-affiliate firm)
- Requirement to engage an independent consultant to review Marcum's system of quality control
- Requirement that Marcum make functional changes to its supervisory structure related to the firm's system of quality control:
 - Firm created a new role, **Chief Quality Officer**, to serve as head the firm's quality control system
 - Firm created a committee responsible for the oversight function of the audit practice, **the Audit Oversight Committee**
 - **This is the first time the PCAOB required functional changes at a firm**

IN THE MATTER OF DELOITTE & TOUCHE S.A.S.

(PCAOB RELEASE NO. 105-2023-005 – SEPT. 26, 2023)

- The PCAOB found the Firm's system of quality control failed to provide reasonable assurance that personnel would comply with applicable standards related to:
 - Completing and appropriately documenting audit work prior to the issuance of the audit report; or
 - Maintaining independence in all circumstances
- Multiple Firm personnel performed audit procedures, obtained audit evidence, and substantially altered audit documentation after issuance of a 2016 audit report
- In these instances, the team failed to appropriately document who performed the work, when it was performed and who reviewed the work

IN THE MATTER OF DELOITTE & TOUCHE S.A.S.

(PCAOB RELEASE NO. 105-2023-005 – SEPT. 26, 2023)

- The PCAOB also found that the Firm's **monitoring procedures** did not provide reasonable assurance that the Firm's policies and procedures were suitably designed and effectively applied
- The Bancolombia audit was selected for internal inspection by the Firm
- Prior to the inspection, the lead partner on the audit was inappropriately informed that the audit had been selected
- Aware of the pending internal inspection, the team began making changes to the workpapers, but failed to follow the requirements of AS 1215 *Audit Documentation*

IN THE MATTER OF DELOITTE & TOUCHE S.A.S.

(PCAOB RELEASE NO. 105-2023-005 – SEPT. 26, 2023)

- The PCAOB also found that DT Colombia's system of quality control did not provide the Firm with reasonable assurance that its personnel would maintain independence (in fact or appearance) in all circumstances
- Independence issues included indemnification clause in an engagement letter and failure to timely evaluate and address impermissible financial relationships between engagement team staff and the client
- Sanctions:
 - \$900,000 civil money penalty
 - Remedial Undertakings

IN THE MATTER OF BDO USA, P.C., KEVIN OLVERA, CPA, AND MICHAEL MUSICK, CPA

(PCAOB RELEASE NO. 105-2023-024 – SEPT. 26, 2023)

- The PCAOB found that the Firm and Olvera, who was serving as a partner on the audit, failed to properly evaluate three significant estimates that the issuer used to value substantially all of its client-related revenue and accounts receivable
- The PCAOB also found that Musick, another BDO partner, failed to exercise due professional care when performing an engagement quality review of the audit, accepting the engagement team's judgments related to the evaluation of the significant estimates instead of identifying the deficiencies in the audit work

IN THE MATTER OF BDO USA, P.C., KEVIN OLVERA, CPA, AND MICHAEL MUSICK, CPA

(PCAOB RELEASE NO. 105-2023-024 – SEPT. 26, 2023)

- These failures occurred despite BDO, Olvera, and Musick encountering several red flags that called into question the reasonableness of the estimates
- Sanctions:
 - Censures
 - \$2,000,000 civil money penalty against the firm
 - \$35,000 civil money penalty imposed on Olvera, limited his ability to act in certain roles on audits for a one-year period, and required that he complete additional continuing professional education
 - \$25,000 civil money penalty against Musick and required that he complete additional continuing professional education

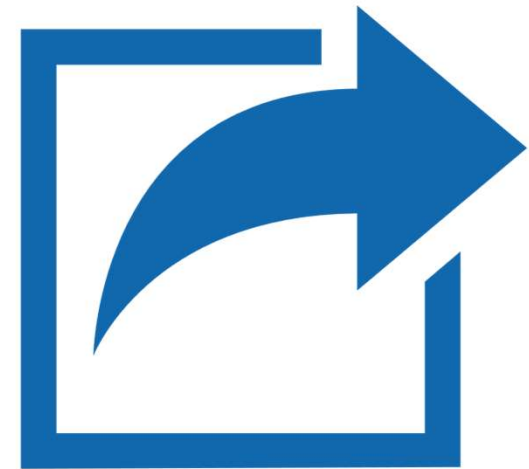
IN THE MATTER OF TOTAL ASIA ASSOCIATES PLT

(PCAOB RELEASE NO. 105-2023-007 – JUNE 23, 2023)

- The PCAOB found that the Firm’s system of quality control failed to provide reasonable assurance that work performed by firm personnel met applicable professional standards, because
 - For three consecutive years, the firm conducted PCAOB audits using outdated third-party guidance materials and practice aids
 - For two consecutive years, the firm’s engagement partners and EQRs received no training in U.S. GAAP, PCAOB standards, and/or SEC rules and regulations
 - Despite performing “cold file reviews” that identified multiple EQR deficiencies, the Firm failed to make any changes to its related policies and procedures
- Sanctions included
 - Revocation of firm registration, with right to reapply after two years and \$80,000 civil money penalty

OTHER RECENT SETTLED MATTERS

- *In the Matter of K.R. Margetson Ltd. and Keith R. Margetson*
- *In the Matter of Eddie Wong, CPA and Neil W. Ehrenkrantz, CPA*
- *In the Matters of Jonathan B. Taylor, CPA and Spielman Koenigsberg & Parker, LLP*



IN THE MATTER OF K.R. MARGETSON LTD. AND KEITH R. MARGETSON

(PCAOB RELEASE NO. 105-2023-023 – SEPT. 12, 2023)

- PCAOB sanctioned K.R. Margetson Ltd. and its sole partner, Keith R. Margetson for violations of various PCAOB rules and standards
- The firm failed to improve its system of quality control despite being put on notice over the course of several PCAOB inspections of quality control deficiencies
- Its quality control policies and procedures failed to provide reasonable assurance that:
 - the work performed by engagement personnel would meet applicable professional standards and regulatory requirements and it would only undertake engagements that the firm could reasonably expect to complete with professional competence

IN THE MATTER OF K.R. MARGETSON LTD. AND KEITH R. MARGETSON

(PCAOB RELEASE NO. 105-2023-023 – SEPT. 12, 2023)

- Sanctions:
 - Censure
 - Revocation of firm's registration with right to reapply after one year
 - \$30,000 civil money penalty
 - Remedial measures to improve its quality control system before reapplying

IN THE MATTER OF EDDIE WONG, CPA AND NEIL W. EHRENKRANTZ, CPA

(PCAOB RELEASE NO. 105-2023-006 – JUNE 22, 2023)

- Wong was engagement partner and Ehrenkrantz was EQR of Friedman LLP's audits of Kingold Jewelry, Inc., a China-based issuer
- The PCAOB found that for three consecutive audits, Wong failed to exercise due professional care and skepticism by, among other things:
 - Failing to obtain sufficient appropriate audit evidence about the existence of significant gold inventories held by third-parties and pledged as loan collateral
 - Failing to identify or evaluate significant unusual transactions, including transactions related to this "pledged gold"

IN THE MATTER OF EDDIE WONG, CPA AND NEIL W. EHRENKRANTZ, CPA

(PCAOB RELEASE NO. 105-2023-006 – JUNE 22, 2023)

- The PCAOB found that Ehrenkrantz failed to evaluate the engagement team's assessment of and responses to significant risks with due professional care
- Sanctions:
 - Wong – \$100,000 civil money penalty and two-year bar
 - Ehrenkrantz – \$25,000 civil money penalty and one-year bar

IN THE MATTERS OF JONATHAN B. TAYLOR, CPA AND SPIELMAN KOENIGSBERG & PARKER, LLP

(PCAOB RELEASE NOS. 105-2022-025 AND 105-2022-024 – OCT. 18, 2022)

- The PCAOB found that Taylor misled PCAOB inspectors and investigators
 - Taylor altered and backdated approximately 80 audit work papers prior to an inspection, then made multiple false statements to PCAOB inspectors
 - Taylor then repeatedly provided PCAOB investigators with false and misleading information, including altered work papers, misrepresentations about EQRs, and false certifications about whether he had provided all relevant documents

IN THE MATTERS OF JONATHAN B. TAYLOR, CPA AND SPIELMAN KOENIGSBERG & PARKER, LLP

(PCAOB RELEASE NOS. 105-2022-025 AND 105-2022-024 – OCT. 18, 2022)

- The PCAOB found that the Firm failed to comply with PCAOB quality control standards, failed to obtain EQRs on multiple audits, and failed to timely or accurately file required reports with the PCAOB
 - Taylor directly and substantially contributed to these violations
- Sanctions:
 - Taylor – \$150,000 civil money penalty and permanent bar
 - Firm – \$150,000 civil money penalty and revocation of firm registration, with right to reapply after five years

PCAOB CENTER FOR ENFORCEMENT TIPS, COMPLAINTS AND OTHER INFORMATION

E-mail: TIPS@pcaobus.org

Post: PCAOB Tip & Referral Center
1666 K Street, NW
Suite 300
Washington, DC 20006

Fax: 202-862-0757

Telephone: 800-741-3158

Website: <https://pcaobus.org/oversight/enforcement/tips-referrals>

QUESTIONS

