PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of PKF O'Connor Davies, LLP,

Respondent.

PCAOB Release No. 105-2022-001

January 25, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), the Public Company Accounting Oversight Board ("Board" or "PCAOB") is:

(1) censuring PKF O'Connor Davies, LLP ("PKFOD," the "Firm," or "Respondent");

(2) imposing a civil money penalty of $40,000 on the Firm;

(3) requiring the Firm to undertake a self-assessment of its system of quality control; and

(4) requiring the Firm to retain an independent consultant to review and make recommendations concerning the Firm's system of quality control as it relates to audits performed under PCAOB standards.

The Board is imposing these sanctions on the basis of its findings that: (a) PKFOD violated PCAOB rules and auditing standards in connection with the audits of two issuers; and (b) PKFOD violated PCAOB rules and quality control standards by failing to take sufficient steps to ensure that its system of quality control provided reasonable assurance that its personnel complied with applicable professional standards and the Firm's standards of quality.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds that:[2]

A. Respondent

1. **PKF O'Connor Davies, LLP** is a limited liability partnership organized under the laws of the state of New York headquartered in New York City. PKFOD also has offices in New York, New Jersey, Connecticut, Rhode Island, Maryland, and Florida. The Firm is licensed to practice public accounting in multiple jurisdictions, including the state of New York (Partnership ID No. 069980). The Firm is, and at all relevant times was, registered with the PCAOB pursuant to Section 102 of the Act and PCAOB rules. PKFOD is a member of the PKF International Limited network of firms.

B. Issuers

2. Issuer A is a real estate investment trust ("REIT") incorporated under the laws of the state of Maryland. At all relevant times, Issuer A was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

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[1] The findings herein are made pursuant to the Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

[2] The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

3. Issuer B is a REIT incorporated under the laws of the state of Maryland. At all relevant times, Issuer B was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

4. This matter concerns PKFOD's violations of PCAOB rules and standards in conducting the Firm's integrated audit of Issuer A's financial statements and internal control over financial reporting ("ICFR") for the fiscal year ended December 31, 2018 ("Issuer A Audit"), and integrated audit of Issuer B's financial statements and ICFR for fiscal year ended September 30, 2019 ("Issuer B Audit") (together, "Audits"). In the Audits, the Firm failed to: (1) test the operating effectiveness of the issuers' information technology general controls, (2) test the completeness and accuracy of certain issuer-produced reports, and (3) perform sufficient and appropriate procedures to respond to fraud risks.[3]

5. The Firm's audit violations are the direct result of its failure to properly design and implement, and monitor the effectiveness of, a system of quality control. Specifically, the Firm failed to: (1) provide and implement sufficient practice aids and tools for use on issuer audits; (2) provide sufficient technical training on auditing ICFR; and (3) perform sufficient appropriate internal monitoring procedures. The Firm's system of quality control, therefore, did not: (1) provide reasonable assurance that the work performed by engagement personnel would meet applicable professional standards and regulatory requirements; (2) provide reasonable assurance that personnel participated in continuing professional education or other professional development activities that enabled them to fulfill assigned responsibilities; (3) provide reasonable assurance that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances; and (4) enable the Firm to obtain reasonable assurance that its system of quality control was suitably designed and effectively applied.

D. PKFOD Violated PCAOB Rules and Standards

6. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[4] An auditor may express an

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[3] All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the audits discussed herein.

[4] *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

unqualified opinion on an issuer's financial statements only when the auditor has conducted an audit in accordance with PCAOB standards and the auditor concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[5] Among other things, PCAOB standards require an auditor to exercise due professional care and professional skepticism in performing an audit and preparing an auditor's report.[6]

7. When an auditor is engaged to perform an audit of management's assessment of the effectiveness of ICFR, the audit of ICFR should be integrated with the audit of the financial statements.[7] The objectives of the audits are not identical, however, and the auditor must plan and perform the work to achieve the objectives of both audits.[8]

8. In an integrated audit, an auditor should design its testing of controls to accomplish the objectives of both audits simultaneously: (1) to obtain sufficient evidence to support the auditor's opinion on ICFR as of year-end; and (2) to obtain sufficient evidence to support the auditor's control risk assessments for purposes of the audit of financial statements.[9] As part of evaluating the period-end financial reporting process, the auditor should assess, among other things, the extent of information technology ("IT") involvement in the period-end financial reporting process.[10] In addition, the auditor should "understand how IT affects the company's flow of transactions."[11] The auditor's identification of IT-related risk and controls is not a separate evaluation, but instead is "an integral part of the top-down approach used to identify significant accounts and disclosures and their relevant assertions, and the controls to test, as well as to assess risk and allocate audit effort. . . ."[12]

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5 *See* AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

6 *See* AS 1015.01 and .07, *Due Professional Care in the Performance of Work.*

7 *See* AS 2201.01 and 06, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements.*

8 *See* AS 2201.06.

9 *See* AS 2201.07.

10 AS 2201.27.

11 AS 2201.36; *see also* AS 2110.29, .B1 - .B6, *Identifying and Assessing Risks of Material Misstatement.*

12 AS 2201.36, Note.

9. Under PCAOB standards, an auditor should test the controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.[13] That testing should assess both the design and operating effectiveness of such controls.[14] If an auditor plans to assess control risk at less than the maximum and rely on controls for purposes of the financial statement audit, the auditor must obtain evidence that such controls were designed and operating effectively during the entire period upon which the auditor plans to place reliance on these controls.[15]

10. PCAOB standards further require that the auditor should evaluate the extent to which he or she will use the work of others to reduce the work the auditor might otherwise perform. If, in an integrated audit, the auditor determines to use the work of others, including management, the auditor must comply with AS 2605, *Consideration of the Internal Audit Function*.[16] To that end, the auditor should assess the competence and objectivity of the persons whose work the auditor plans to use to determine the extent to which the auditor can rely on that work.[17]

11. PCAOB standards require the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[18] To be appropriate, audit evidence must be both relevant and reliable.[19] The reliability of evidence depends on its nature and source and the circumstances under which it is obtained.[20] Evidence obtained from inquiry of issuer personnel is not on its own sufficient audit evidence.[21]

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[13] AS 2201.39.

[14] *See* AS 2201.42, .44.

[15] *See* AS 2201.B4; *see also* AS 2301.16, *The Auditor's Responses to the Risks of Material Misstatement.*

[16] *See* AS 2201.16.

[17] *See* AS 2201.18.

[18] *See* AS 1105.04, *Audit Evidence*.

[19] *See* AS 1105.06.

[20] *See* AS 1105.08.

[21] *See* AS 1105.17, Note.

i. PKFOD Failed to Properly Test and Relied Inappropriately on Information Technology General Controls

12. PKFOD issued audit reports containing unqualified opinions on the financial statements and ICFR for the Issuer A Audit on March 7, 2019, and for the Issuer B Audit on November 25, 2019. These reports were included with the issuers' Forms 10-K filed with the Securities and Exchange Commission on March 7, 2019 and November 25, 2019, respectively. On both Audits, the engagement teams included IT audit personnel from the Firm's Risk Advisory Group, who tested the design and operating effectiveness of the issuers' information technology general controls ("ITGCs").[22] That testing, however, was insufficient as the engagement teams failed to perform procedures sufficient to test design effectiveness of the ITGCs and further failed to test the operating effectiveness of those same controls.

13. The IT audit personnel for both Audits made inquiries and obtained documents management used in its evaluation of ITGCs. The IT audit personnel used these documents to assess the design effectiveness of ITGCs but failed to perform procedures to test whether the controls identified, if operating effectively, satisfied the companies' control objectives and could effectively prevent or detect errors or fraud that could result in material misstatements in the companies' financial statements.[23] Further, the engagement teams' design effectiveness test work was flawed because neither the IT audit personnel nor anyone else on the engagement teams performed any procedures to assess the competence and objectivity of the issuers' management whose work they used in violation of PCAOB standards.[24]

14. Although the IT audit personnel concluded that the ITGCs were operating effectively, there is no evidence that the IT audit personnel performed procedures to test the operating effectiveness of the ITGCs.[25] Because the engagement teams did not test the operating effectiveness of the ITGCs, the Firm lacked the foundation for its reliance on those controls for other audit procedures.[26] As a result of the engagement teams' inappropriate reliance on ITGCs, neither engagement team modified the planned nature, timing or extent of

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22 IT general controls are broad controls over general IT activities, such as security and access, computer operations, and systems development and system changes.

23 *See* AS 2201.42 - .43.

24 *See* AS 2201.16, .18.

25 *See* AS 2201.44 - .45.

26 *See* AS 2301.16.

their substantive procedures. This resulted in the engagement teams' failure to obtain sufficient evidence to support its opinions in violation of PCAOB standards.[27]

15. Accordingly, the Firm's failure to test, or sufficiently test, the design and operating effectiveness of ITGCs violated AS 2201 and AS 2301.

ii. PKFOD Failed to Properly Test the Accuracy and Completeness of Information Produced by the Issuers

16. When using information produced by the company as audit evidence, PCAOB standards require the auditor to evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to, among other things, test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.[28]

17. In the Audits, the Firm repeatedly relied on reports provided by the issuers, including in areas identified as significant risks or fraud risks, such as revenue, long-lived assets, and management override of controls, without performing any procedures to test the accuracy and completeness of those reports. The Firm also failed, as described above, to properly test ITGCs related to the underlying systems that generated the reports. Accordingly, the Firm's use of issuer-produced reports as evidence violated PCAOB standards.[29]

iii. PKFOD Failed to Perform Sufficient and Appropriate Fraud Procedures

18. In addressing fraud risk related to management override of controls, PCAOB standards require the auditor to test the appropriateness of journal entries and other adjustments for evidence of possible material misstatement due to fraud.[30] When identifying and selecting specific journal entries and other adjustments for testing, the auditor should consider, among other things, (1) the auditor's assessment of the fraud risk, (2) the effectiveness of controls that have been implemented over journal entries and other adjustments, (3) the entity's financial reporting process and the nature of the evidence that can be examined, (4) the characteristics of fraudulent entries of adjustments, and (5) journal entries or other adjustments processed outside the normal course of business.[31] As noted above,

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27 *See* AS 2201.07; *see also* AS 2301.16.

28 *See* AS 1105.10, *Audit Evidence*.

29 *Id*.

30 *See* AS 2401.57 - .58, *Consideration of Fraud in a Financial Statement Audit*; *see also* AS 2110.69.

31 *See* AS 2401.61.

inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion.[32]

19. In both Audits, the engagement teams identified management override of controls as a fraud risk and planned to address that risk, in part, by performing procedures to test journal entries selected based on fraud criteria determined by the engagement teams. However, the engagement teams failed to perform sufficient procedures to test the completeness of the population of journal entries provided by management or to test the controls over the completeness of that information.[33] In the Issuer A Audit, the engagement team noted numerous gaps in the journal entry sequence in the report received from management, yet the Firm relied solely on management inquiry to evaluate the reasonableness of those gaps.[34] Moreover, neither engagement team tested the parameters used to generate the reports used to select journal entries for testing. Accordingly, neither engagement team had an appropriate foundation from which to select journal entries for testing.[35]

20. In both Audits, the engagement teams identified unique characteristics that they believed indicated possible fraudulent journal entries. However, despite identifying populations of journal entries that met those characteristics, neither engagement team addressed adequately the fraud risks presented by those populations. In the Issuer A Audit, the engagement team identified 1,074 journal entries that met its fraud characteristics, yet it tested only 40 journal entries. For the Issuer B Audit, the engagement team obtained a listing from the issuer of all journal entries for the fiscal year. The engagement team then scanned the list and selected 25 entries for testing. The engagement team did not document how many other entries met the criteria, but were not tested.

21. Despite the fraud risk associated with the entries that presented the engagement teams' characteristics of being fraudulent that were not tested and the judgment involved in determining not to test those entries, neither engagement team explained why the full populations of relevant entries were not tested or how the entries that were selected provided sufficient appropriate evidence to address the risk of fraud due to management override of controls.[36] As a result, the procedures performed did not sufficiently address the risk

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32 *See* AS 1105.17, Note.

33 *See* AS 1105.10.

34 *See* AS 1105.17.

35 *See* AS 1105.10.

36 *See* AS 2401.57-.62, .83; AS 1105.04; AS 1015.07-.09.

of material misstatement due to management override of controls.[37] Accordingly, the Firm violated AS 1015, AS 1105, and AS 2401 in both Audits.

E. PKFOD Violated PCAOB Rules and Quality Control Standards

i. PKFOD's Quality Control Policies and Procedures Failed to Provide the Firm with Reasonable Assurance that the Work Performed by Engagement Personnel Meets Professional Standards

22. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's quality control standards.[38] These standards require that a registered firm have a system of quality control for its accounting and auditing practice.[39] PCAOB quality control standards provide that a registered firm should establish policies and procedures "to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."[40] Such policies should "encompass all phases of the design and execution of the engagement."[41] In addition, "[t]o the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement."[42]

23. PKFOD failed to establish policies and procedures sufficient to provide reasonable assurance that the work performed by its engagement personnel met applicable professional standards, regulatory requirements, and the firm's standards of quality. PKFOD supplemented a third-party audit methodology with Firm-developed practice aids but failed to adequately evaluate whether the resulting methodology and related practice aids provided Firm personnel with sufficient guidance on the requirements for testing ITGCs or whether the Firm needed to supplement its methodology with additional guidance and templates to facilitate engagement teams' compliance with auditing standards. Moreover, the Firm failed to

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37 *See* AS 2401.57, .83.

38 *See* PCAOB Rule 3400T, *Interim Quality Control Standards*.

39 *See* Quality Control Standard 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20"), .01.

40 QC § 20.17.

41 QC § 20.18.

42 *Id*.

require the use and partner review of certain Firm-developed practice aids on its integrated audits, including practice aids related to testing ICFR.

24. In performing the Audits, the engagement teams relied on a combination of third-party practice aids, Firm-developed practice aids, and "unwritten policies" to provide the necessary guidance to its personnel. However, the aids used failed to provide guidance or establish procedures for testing ITGCs. In addition, the Firm's "unwritten policies" were not sufficiently communicated to Firm personnel. As a result, neither the IT audit personnel nor other engagement team members understood how to properly test ITGCs, and document such testing.

25. Moreover, the engagement partners failed to properly supervise the work of the IT audit personnel. The engagement partners on the Audits did not provide the IT audit personnel with instructions or review their work as required under AS 1201, *Supervision of an Audit Engagement*.[43] Rather, the engagement partners simply outsourced the ITGC testing to the IT audit personnel. As a result, both engagement partners failed to identify or evaluate the potential control deficiencies identified by the IT audit personnel that were documented in the work papers.

26. At the time of the Audits, the Firm relied primarily on third-party checklists without tailoring or providing supplemental guidance on how to supervise, or the importance of supervising, IT audit personnel involved in issuer audit engagements. The Firm also failed to tailor or provide supplemental guidance to engagement partners on its issuer audits, and thus failed to adequately communicate the responsibility of the engagement partner to supervise the work of IT audit personnel.[44] Therefore, the engagement partners' failures to supervise the IT audit personnel directly stemmed from defects in the Firm's system of quality control.[45]

27. In addition, a Firm worksheet created to assist engagement personnel with complying with AS 2401 was not designed effectively. Specifically, engagement teams were not required to use the worksheet and those that used the worksheet were permitted to modify the worksheet to exclude procedures necessary to satisfy the requirements of AS 2401. As such, the design and implementation of this worksheet did not provide reasonable assurance that the Firm's personnel would comply with AS 2401. Moreover, the worksheet did not: (1) provide guidance on how to identify relevant characteristics of fraudulent journal entries, (2) instruct engagement teams to test the completeness and accuracy of the population of journal entries,

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43 *See* AS 1201.05.

44 *See* QC § 20.13.

45 *See* QC § 20.18.

or (3) provide guidance on how or whether engagement teams should implement sampling on journal entry testing to address fraud risks.[46] Because of the design defects in the worksheet and the lack of sufficient guidance elsewhere in the Firm's audit methodology, use of the worksheet failed to provide the Firm with reasonable assurance that engagement teams who completed it would comply with PCAOB auditing standards.[47]

ii. PKFOD's Quality Control Policies and Procedures Failed to Provide the Firm with Reasonable Assurance that Certain Personnel Assigned to Issuer Audits Participated in Training on PCAOB and SEC Requirements

28. PCAOB quality control standards provide that firms should establish policies and procedures to provide the firm with reasonable assurance that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances and personnel participate in general and industry-specific continuing professional education that enable them to fulfill responsibilities assigned.[48]

29. Despite these requirements, during the periods under audit, PKFOD's policies and procedures failed to require personnel assigned to PCAOB audits, including its IT audit personnel, to participate in continuing professional education to ensure that such individuals received periodic technical training related to relevant PCAOB standards and SEC reporting requirements, rules, and regulations. Although the Firm provided annual PCAOB updates in January of each year, the Firm's quality control policies and procedures did not require personnel assigned to issuer audits, including IT audit personnel, to attend these updates or any other trainings on PCAOB standards. Further, none of the staff assigned to the audits were required to participate in training on auditing ICFR, including ITGCs, or how to supervise the work of IT audit personnel. Accordingly, the Firm's policies and procedures did not provide reasonable assurance that personnel assigned to issuer audits participated in continuing professional education to enable them to fulfill the responsibilities assigned to them or that work was being assigned to personnel having the degree of technical training and proficiency required to perform audits under PCAOB standards.

30. Because the Firm failed to ensure that its personnel received appropriate training on PCAOB and SEC requirements, it was unable to ensure that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances and that personnel participated in general and industry-specific continuing professional

[46] *See* AS 2401.61.

[47] *See* QC §§ 20.17 -.18.

[48] *See* QC § 20.13.

education that enabled them to fulfill their assigned responsibilities. Accordingly, the Firm violated QC §§ 20.13.

iii. PKFOD Failed to Perform Sufficient and Appropriate Internal Monitoring to Ensure Its System of Quality Control Was Operating Effectively

31. PCAOB quality control standards provide that one required element of a quality control system is monitoring.[49] Monitoring involves an ongoing consideration and evaluation of the: (a) relevance and adequacy of the firm's policies and procedures; (b) appropriateness of the firm's guidance materials and any practice aids; (c) effectiveness of professional development activities; and (d) compliance with the firm's policies and procedures.[50] Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective.[51]

32. During 2019, PKFOD relied on retrospective monitoring activities performed by the Firm, including inspections and post-issuance reviews (together "Internal Inspections"), as its primary monitoring activities. However, the Firm failed to effectively design and implement those procedures. PKFOD's quality control policies and procedures required that the Firm perform Internal Inspections of a sample of audits annually from a cross-section of the Firm's engagements, including PCAOB engagements. The Firm's policies and procedures required that inspectors have "adequate technical knowledge and experience." Despite this requirement, the Firm failed to perform procedures to confirm that the individual assigned had the requisite knowledge, skills, and abilities to perform the Internal Inspections of PCAOB engagements including integrated audits.[52] The Firm's policies and procedures also required the use of monitoring checklists; however, the Firm failed to design or implement procedures to ensure that the individual performing the Internal Inspections selected appropriate monitoring checklist(s).

33. During its 2019 internal monitoring process, PKFOD's Quality Control Administration committee ("QCA") selected the Issuer A Audit for Internal Inspection. The Firm contracted with a retired audit partner from PKFOD's predecessor firm ("Individual A") to perform the inspection of Issuer A. Individual A was not a licensed CPA at the time of the inspection, had not been a member of a public accounting firm in nearly 20 years, and had never served as an engagement partner on or participated in an integrated audit performed

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49 *See* QC § 20.07.

50 QC § 30.02, *Monitoring a CPA Firm's Accounting and Auditing Practice*; *see also* QC § 20.20.

51 QC § 30.03.

52 *See* QC § 30.08.

under PCAOB standards. Despite not having adequate technical knowledge and experience to conduct an inspection of an integrated audit, Individual A was assigned to conduct the Internal Inspection of the Issuer A Audit.

34. At the outset, Individual A failed to identify that the inspection checklist used was for audits not subject to PCAOB jurisdiction. Individual A also incorrectly indicated on the checklist that the Issuer A Audit was a financial statement audit only. Moreover, Individual A's inspection was cursory at best. Out of the 190 substantive questions on the checklist, Individual A responded to only five and selected "N/A" to a question asking whether the auditor complied with the applicable independence and quality controls standards of the PCAOB. Significantly, Individual A did not identify any of the deficiencies in the Issuer A Audit discussed in this Order, including the engagement team's failure to: (1) test appropriately the design and operating effectiveness of ITGCs, (2) test the accuracy and completeness of company-produced information, and (3) perform sufficient and appropriate procedures to respond to fraud risks.

35. While the deficiencies in Individual A's inspection may have resulted from a lack of technical knowledge or experience in auditing under PCAOB standards, the Firm's quality control policies and procedures contributed to the deficiencies. For example, the third-party checklist the Firm required and used for all internal inspections noted in bold italics on the first page that it was intended for reviews of audits that were not subject to PCAOB standards. The checklist also provided a list of the types of audits that would fall within that category, which excluded issuer audits. Furthermore, the checklist mentioned a general audit engagement checklist and financial reporting and disclosure checklist that should be completed on all audits, as well as checklists for specialized industries and areas that should be completed if applicable; however, the Firm did not require Individual A to, nor did he, complete any additional checklists.

36. Moreover, the Firm's required checklist was deficient because it did not include questions addressing certain of the determinations the Firm's quality control policies and procedures identified as within the scope of an inspection, including whether the "[t]he Firm's guidance materials and practice aids are appropriate and checklists, forms, programs, or other documentation required by the Firm's QC System have been properly completed."

37. Finally, in its quality control policies and procedures, the Firm described a process for accumulating the results of the inspections and reporting those to its QCA and then

ultimately to the partners and staff of the Firm. Yet that reporting process failed to note any of the deficiencies in Individual A's review.[53]

38. Because the Firm's defective internal inspections were its primary monitoring procedures, the Firm violated QC §§ 30.02-.03 and QC §20.20.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer.

In ordering sanctions, the Board took into account the Firm's extraordinary cooperation through its substantial assistance to the PCAOB's investigation and voluntary and timely remedial actions to address the violations described in this Order. Specifically, the Firm performed and provided to the PCAOB an analysis of the causes of the violations set forth in this Order; provided to the PCAOB information from a third-party consultant's review of the Firm's journal entry testing, testing of ICFR, and testing of the design and operating effectiveness of ITGCs related to certain of the Firm's issuer audits; and made initial revisions to its Quality Control Manual. In addition, the Firm provided continuing professional education to members of the Firm's PCAOB practice team and members of the Firm's IT team.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), PKF O'Connor Davies LLP is hereby censured.

B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $40,000 is imposed on the Firm. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. Respondent shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies PKFOD as a

[53] *See* QC § 30.08.

respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

C. Pursuant to Sections 105(c)(4)(C) and (G) of the Act and PCAOB Rules 5300(a)(3), (8) and (9), the Board orders that:

1. Self-Assessment

   a. PKFOD shall undertake a self-assessment of its system of quality control to ensure its current policies and procedures are compliant with PCAOB quality control standards.

2. Independent Consultant

   a. PKFOD shall retain and pay for an independent consultant not unacceptable to the PCAOB staff who has the experience with, and is knowledgeable concerning, PCAOB quality control and auditing standards ("Independent Consultant") to review PKFOD's system of quality control applicable to audits and reviews conducted pursuant to PCAOB standards. Within thirty days after the entry of this Order, PKFOD shall submit to the PCAOB staff a proposal setting forth the identity, qualifications, and proposed terms of retention of the Independent Consultant.

   b. To ensure the independence of the Independent Consultant, PKFOD: (i) shall not have the authority to terminate the Independent Consultant or substitute another independent consultant for the initial Independent Consultant, without the prior written approval of the PCAOB staff; (ii) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

   c. PKFOD shall cooperate fully with the Independent Consultant and shall provide reasonable access to its personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's review, evaluation, and reports.

d. If PKFOD, despite its best, good faith efforts, is unable to identify an Independent Consultant candidate that meets all of the above-listed criteria, it may seek approval from the PCAOB staff of alternative candidates or alternative terms that PKFOD believes to be otherwise suitable.

e. Within 90 days of this Order, PKFOD will review, evaluate, and implement, under the supervision of the Independent Consultant, any necessary enhancements to PKFOD's quality control policies and procedures applicable to audits and reviews conducted pursuant to PCAOB standards. If, as a result of that review and evaluation, it appears to the Independent Consultant that any further enhancements to the system of quality control are necessary, it shall recommend such enhancements to PKFOD.

f. Within 180 days of this Order, PKFOD shall (1) implement any recommendations received from the Independent Consultant, pursuant to Paragraph IV.C.2.e, and (2) require the Independent Consultant to review a sample of the Firm's most recent integrated audits to ensure those audits comply with PCAOB auditing standards and that those integrated audits were conducted in accordance with PCAOB quality control standards and the Firm's revised Quality Control Manual. If PKFOD does not implement recommendations received from the Independent Consultant pursuant to Paragraph IV.C.2.e, it shall communicate to the Director of the Division of Enforcement and Investigations the recommendations of the Independent Consultant it did not implement and the reasons for doing so.

3. <u>Firm Certification</u>

a. Within 270 days of the date of this Order, PKFOD shall certify in writing to the Director of the Division of Enforcement and Investigations, PCAOB, 1666 K Street N.W., Washington, DC 20006, the Firm's compliance with the above paragraphs. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The certification shall include a description of the specific enhancements implemented to PKFOD's system of quality control since the time of the conduct described in this Order. PKFOD shall also submit such additional evidence of and information concerning as the staff of the Division of Enforcement and Investigations may reasonably request.

b. For good cause shown, the PCAOB staff may extend any of the procedural dates relating to these undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered the last day.

c. PKFOD understands that the failure to satisfy these undertakings may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

January 25, 2022