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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Se Woon Jung,*

Respondent.

PCAOB Release No. 105-2022-014

August 16, 2022

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

- (1) barring Se Woon Jung (“Jung” or “Respondent”) from being associated with a registered public accounting firm;<sup>1</sup> and
- (2) imposing a \$40,000 civil money penalty upon Jung.

The Board is imposing these sanctions on the basis of its findings that Jung: (a) violated PCAOB rules and standards in connection with the audit of an issuer; and (b) failed to cooperate with a Board inspection.

### 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 (“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

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<sup>1</sup> Jung may file a petition for Board consent to associate with a registered public accounting firm after three (3) years from the date of this Order.

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 Jung and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.<sup>2</sup>

### III.

On the basis of Respondent's Offer, the Board finds that:<sup>3</sup>

#### A. Respondent

1. **Se Woon Jung** is a member of the Korean Institute of Certified Public Accountants (registration no. 10540). Until March 8, 2019, and at all relevant times, Jung was a director employed by KPMG Samjong Accounting Corp. ("KPMG Korea" or "Firm"). Jung served as the engagement manager for the audit of five Korean components of Issuer A for the fiscal year ended September 30, 2017 ("Component Audit"). At all relevant times, Jung was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

#### B. Relevant Entities and Individuals

2. KPMG Korea is a limited liability corporation organized under the laws of the Republic of Korea and headquartered in Seoul, Republic of Korea.<sup>4</sup> The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

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<sup>2</sup> The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

<sup>3</sup> 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.

<sup>4</sup> See *KPMG Samjong Accounting Corp.*, PCAOB Release No. 105-2022-012 (Aug. 16, 2022).

3. The “Component Lead Partner” is a former partner of KPMG Korea. He was the partner responsible for the Firm’s work on the Component Audit.<sup>5</sup>

4. Issuer A was, at all relevant times, a Delaware corporation headquartered in Arizona. Issuer A’s public filings disclose that it was a specialty materials manufacturer. 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).

### **C. Summary**

5. This matter concerns Jung’s violations of PCAOB rules and auditing standards in connection with the Component Audit and the Board’s subsequent review of portions of that audit as part of its 2018 inspection of KPMG Korea. First, during the Component Audit, Jung failed to properly perform and supervise the Firm’s audit work on accounts receivable. As a result, Jung did not identify that, for three of the five Korean components of Issuer A, the audit documentation that the engagement team prepared related to accounts receivable confirmations consisted primarily of prior-year work papers.

6. Second, in advance of the Board’s 2018 inspection, Jung improperly added documentation to the Component Audit work papers in an effort to mislead the Board’s inspectors about the work performed at the time of the Component Audit.

7. Finally, Jung also provided misleading information to the inspectors during inspection field work.

### **D. Respondent Violated PCAOB Rules and Standards in Connection with the Audit Procedures for Accounts Receivable**

8. 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.<sup>6</sup> Among other things, PCAOB standards require an auditor to exercise due professional care, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient audit evidence to provide a

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<sup>5</sup> See *Jin Tae Kim*, PCAOB Release No. 105-2022-013 (Aug. 16, 2022).

<sup>6</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

reasonable basis for the auditor's opinion.<sup>7</sup> As described below, Jung violated these and other PCAOB rules and standards in connection with the Component Audit and the Board's subsequent inspection of KPMG Korea.

**i. Jung Failed to Properly Perform and Supervise the Audit Procedures for Accounts Receivable**

9. KPMG LLP ("KPMG US") performed an integrated audit of Issuer A for the fiscal year ending September 30, 2017. KPMG US instructed its Korean affiliate, KPMG Korea, to audit the financial information for five Korean components of Issuer A.<sup>8</sup> The Korean components constituted 27% of Issuer A's reported revenue and 23% of Issuer A's reported assets for fiscal year 2017. KPMG Korea's engagement team was led by the Component Lead Partner. Jung served as the engagement manager on the KPMG Korea engagement team.

10. KPMG US instructed KPMG Korea that audit procedures should be performed and audit documentation for the Component Audit should be prepared and retained in accordance with PCAOB standards. KPMG US further instructed KPMG Korea that the five Korean components of Issuer A were, collectively, financially significant and identified revenue as a significant account for the Component Audit. In addition, KPMG US informed KPMG Korea that there was a fraud risk related to revenue cutoff. Jung was aware of these instructions at the time of the Component Audit.

11. Engagement team members, including Jung, who assisted the Component Lead Partner with supervision of the work of other engagement team members, were required to comply with the supervision requirements of PCAOB standards with respect to their assigned responsibilities.<sup>9</sup> In the areas Jung was responsible for supervising, he was required to review the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.<sup>10</sup> Jung's supervision of the audit procedures for accounts receivable failed to comply with PCAOB standards.

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<sup>7</sup> See AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

<sup>8</sup> See AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

<sup>9</sup> See AS 1201.04, *Supervision of the Audit Engagement*.

<sup>10</sup> *Id.* at .05.

12. KPMG Korea documented that it performed accounts receivable confirmation procedures to address the fraud risk related to revenue cutoff. The Component Lead Partner instructed Jung to supervise that testing. Jung and other engagement team members acting under his supervision, however, failed to perform and document procedures sufficient to evaluate the existence of accounts receivable and revenue. In fact, the audit documentation for accounts receivable for three of the five Korean components of Issuer A consisted primarily of work papers from the prior year. The accounts receivable balance for these three components constituted 73% of accounts receivable recorded by Issuer A's Korean components as of September 30, 2017.

13. During the Component Audit, multiple engagement team members working under Jung's supervision signed off as having prepared the accounts receivable audit documentation, and Jung signed off as having reviewed that documentation, despite the documentation consisting of prior-year work papers. Jung's acceptance of prior-year work papers to support current-year accounts receivable balances constituted a failure to exercise due professional care, a failure to obtain sufficient appropriate audit evidence, and a failure to appropriately fulfill his supervision responsibilities, in violation of PCAOB standards.<sup>11</sup>

14. At the conclusion of the Component Audit, Jung assisted in finalizing KPMG Korea's interoffice report. Jung then sent to KPMG US an interoffice report, which stated that the Component Audit was conducted in accordance with PCAOB standards. It also stated that the engagement team had addressed the fraud risk related to revenue cutoff by performing accounts receivable confirmation procedures. In light of Jung's violation of PCAOB standards, those statements were inaccurate.

**ii. Jung Improperly Altered Audit Documentation and Failed to Cooperate with the Board's Inspection**

15. PCAOB Rule 4006 states, in part: "Every registered public accounting firm, and every associated person of a registered public accounting firm, shall cooperate with the Board

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<sup>11</sup> See AS 1015.01 and .07; AS 1105.04; AS 1201.05; see also AS 2810.33, *Evaluating Audit Results* (as part of evaluating audit results, the auditor must conclude on whether sufficient appropriate audit evidence has been obtained to support the audit opinion).

in the performance of any Board inspection.”<sup>12</sup> “Implicit in this cooperation requirement is that auditors provide accurate and truthful information” to the Board’s inspectors.<sup>13</sup>

16. PCAOB standards require an auditor to assemble for retention a complete and final set of audit documentation as of a date not more than 45 days after the report release date.<sup>14</sup> PCAOB standards also provide that “[a]udit documentation must not be deleted or discarded after the documentation completion date, however, information may be added. Any documentation added must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.”<sup>15</sup>

17. In late September 2018, Jung learned that the Component Audit would be inspected by the PCAOB. On or around October 4, 2018, Jung learned that revenue and accounts receivable would be focus areas for the inspectors’ review of the Component Audit.

18. To prepare for the inspection, Jung participated in a review of the work papers for the Component Audit. As a result of that review, Jung noted the issue with the accounts receivable work; he also came to understand that KPMG Korea’s documentation for the Component Audit did not include a management representation letter or an independence confirmation.

19. In response to those discoveries, Jung and the Component Lead Partner improperly added work papers to the documentation for the Component Audit. First, Jung: (a) created work papers documenting accounts receivable testing that was not performed at the time of the Component Audit; and (b) improperly added those work papers to the audit documentation. Second, Jung improperly added a management representation letter to the audit documentation. Third, Jung and the Component Lead Partner created an independence confirmation and executed it in a manner that made it appear as if the independence confirmation had been completed during the Component Audit. The Component Lead Partner then directed other available engagement team members to execute the independence confirmation and, to the extent that other engagement team members were unavailable, Jung and the Component Lead Partner added signatures appearing to be from the unavailable

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<sup>12</sup> PCAOB Rule 4006, *Duty to Cooperate with Inspectors*.

<sup>13</sup> *Kabani & Co., Inc.*, Rel. No. 34-80201, 2017 WL 947229, at \*12 (SEC Mar. 10, 2017), *petition for review denied, Kabani & Co., Inc. v. SEC*, 733 Fed App’x 918 (9th Cir. 2018).

<sup>14</sup> *See* AS 1215.14-.15, *Audit Documentation*.

<sup>15</sup> *Id.* at .16.

engagement team members. Jung and the Component Lead Partner improperly added the newly created independence confirmation to the audit documentation.

20. None of these documents, which were added to the audit documentation shortly before the inspection and more than ten months after the documentation completion date for the Component Audit, indicated the date the information was added, the name of the person who prepared the additional documentation, or the reason for adding it, in violation of PCAOB standards.<sup>16</sup>

21. The Board’s inspectors began field work in early-December 2018. During field work, the inspectors met with Jung and other KPMG Korea auditors and asked about certain aspects of the audit documentation, including audit documentation that appeared to be for procedures performed in connection with the prior-year audit.

22. In response, Jung represented to the inspectors that additional accounts receivable work was documented and included in hard-copy work papers that had not yet been provided to the inspectors. Neither Jung nor anyone else on the engagement team, however, disclosed to the inspectors that they had improperly added accounts receivable work papers to the audit documentation shortly before the inspection.

23. Jung’s actions—including improperly adding newly created and backdated work papers to the complete and final set of audit documentation, and providing misleading information to the Board’s inspectors—violated PCAOB audit documentation standards, and constituted a failure to cooperate with a PCAOB inspection.<sup>17</sup>

#### 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. Accordingly, it is hereby ORDERED that:

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<sup>16</sup> See *id.*

<sup>17</sup> See *id.* and PCAOB Rule 4006.

- A. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Jung is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>18</sup>
- B. After three years from the date of this Order, Jung may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and
- C. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty in the amount of \$40,000 upon Jung. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Respondent shall pay this civil money penalty within twenty 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 that identifies Jung as a 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006. ***Respondent understands that failure to pay the civil money penalty described above may***

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<sup>18</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Jung. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

***alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.***

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

August 16, 2022