

Division of Enforcement and Investigations Update

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Division of Enforcement and Investigations
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DIVISION OF ENFORCEMENT & INVESTIGATIONS

What do we do.....



AGENDA

- Today I would like to discuss:
 - Enforcement results as of the PCAOB's 20th anniversary and the remarks on enforcement sanctions of Chair Williams
 - Effects of suspensions and bars and some consequences of allowing barred or suspended individuals to associate
 - Coordination with the Securities and Exchange Commission
 - Current program outlook and priorities
 - Selected recent settled matters involving quality control violations
 - Ongoing issues of compliance with attestation standards (ATs)
 - Highlights of other noteworthy 2021-22 settlements

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ENFORCEMENT STATS ON THE PCAOB'S 20TH YEAR

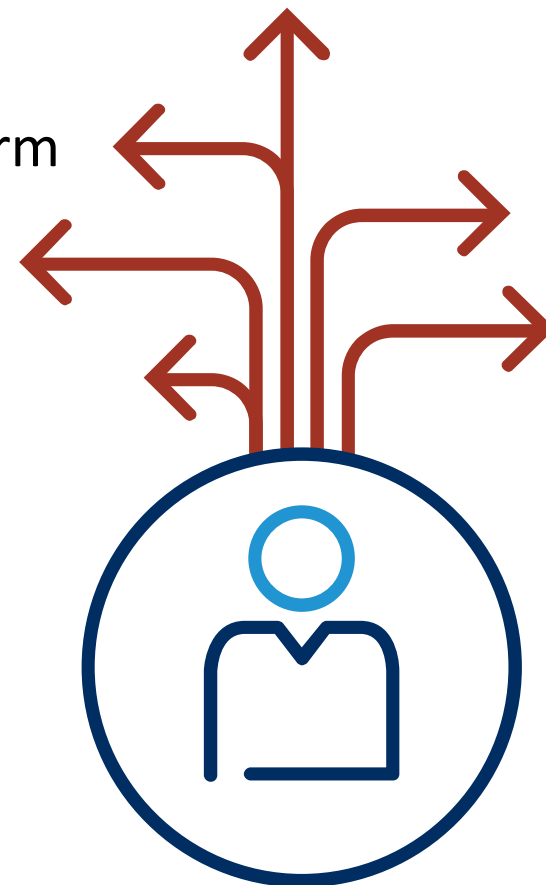
- Since the beginning of the PCAOB's enforcement program to July 2022
 - The Board has issued **336 settled orders**, sanctioning over **230 firms** and over **270 individuals**
 - *About three-quarters of those sanctions were imposed on NAF firms and individuals*
 - The Board has employed a range of sanctions in settled enforcement matters depending on the facts and circumstances of the case, including
 - Over **200 individual bars** / over **100 firm revocations**
 - Over **60 limitations** on firm or individual practice
 - Over **30 suspensions** of individuals
 - Over **\$28 million** total in civil money penalties

CHAIR WILLIAMS REMARKS ON ENFORCEMENT SANCTIONS

- On the 20th anniversary of the Sarbanes-Oxley Act and the establishment of the PCAOB, current Chair Williams remarked:
 - *We intend to use every tool in our enforcement toolbox and impose significant sanctions, including substantial penalties, to ensure there will be consequences for putting investors at risk*
 - *In the past five years, the PCAOB assessed penalties against individuals less than half of the time and firms only about 86% of the time. This year it's 100%*
 - *We are just halfway through the first year of this new Board. Already we've more than doubled our average penalties against individuals compared to the last five years*
 - *At the same time, we've increased our average penalties against firms by more than 65%*

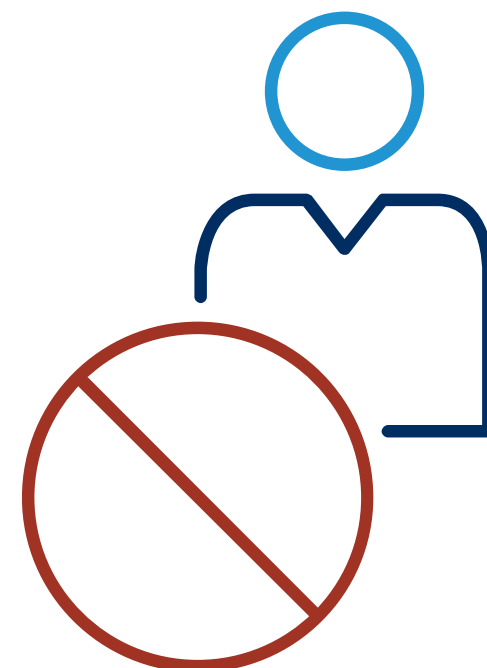
RANGE OF POSSIBLE SANCTIONS

- 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



EFFECT 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
 - *See Section 105(c)(7) of the Sarbanes-Oxley Act of 2002, as amended; PCAOB Rule 5301*
- 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
 - *See Section 105(c)(7) of the Sarbanes-Oxley Act of 2002, as amended; PCAOB Rule 5301*



POLLING QUESTION

A person that is suspended or barred from being associated with a registered public accounting firm may not:

- a. Receive compensation from a registered public accounting firm
- b. Share in the profits of a registered public accounting firm
- c. Participate as an agent of a registered public accounting firm
- d. All of the above.

IN THE MATTER OF MJF & ASSOCIATES, ET AL.

- This settled order was issued April 22, 2021
- **MJF & Associates**, did not take adequate steps to ensure that one its partners, barred by the PCAOB, did not participate in issuer audits
 - **Miguel J. Figueroa**, the Firm's sole owner, directly and substantially contributed to the violations
- *After the PCAOB had issued a bar against one of its partners*, the Firm allowed the barred partner to engage in activities in connection with the preparation or issuance of issuer audit reports
 - Although the Firm took certain steps, it failed to develop sufficient policies or procedures to ensure that the partner did not “associate” with the firm while barred

IN THE MATTER OF MJF & ASSOCIATES, ET AL. (CONT'D)

- As a result of these violation of the Sarbanes-Oxley Act, PCAOB Rules, and Quality Control Standards, in addition to a monetary penalty:
 - MJF's **registration was revoked** with a right to reapply after one year
 - Mr. Figueroa was also **barred** with a right to reapply after one year
- Respondents settled on a neither-admit-nor-deny basis.

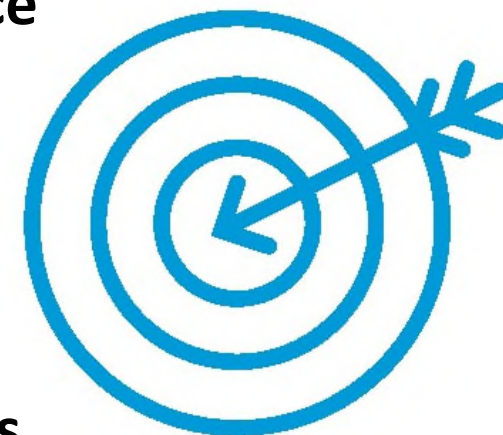
COORDINATION WITH THE SEC

- 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 OUTLOOK

- The 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 **independence** violations
- The DEI is also focusing on:
 - Matters relating to **deficiencies in firm quality control** policies and procedures
 - Audit matters relating to **new and evolving issues** (*e.g.*, cryptocurrency or cannabis)
 - Expanding the **types of cases** we pursue (*e.g.*, a single act of negligence where conduct is serious)



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 2021 through June 30, 2022**, the Board settled matters involving quality control standards ("QC") violations with **eleven** U.S. or International firms
 - These orders identified combinations of violations relating to quality control issues encompassing all five of the required elements of quality control

MATTERS RELATING TO DEFICIENCIES IN FIRM QUALITY CONTROLS (CONT'D)

- **Three** of the firms charged with QC violations had PCAOB *inspection histories noting repeat audit and QC deficiencies over multiple inspection periods*:
 - In the matter of ***BMKR LLP, et al***, the firm was on notice from previous inspections of issues in evaluating equity transactions in accordance with GAAP, for which it was eventually sanctioned in two subsequent audits
 - In the matter of ***WDM Chartered Professional Accountants, et al***, the firm had been aware for a decade that its audit methodology did not follow PCAOB standards and that its training was lacking, and was also subsequently sanctioned for failures in an audit
 - In the matter of ***RBSM LLP***, the firm received notice of repeat significant audit deficiencies in its audits, over multiple inspections, which indicated that its system of QC had failed to address previous inspection deficiencies

MATTERS RELATING TO DEFICIENCIES IN FIRM QUALITY CONTROLS (CONT'D)

- **Furthermore, *for these three firms*, their QC monitoring element was **not functioning**, or **functioned poorly****
- **BMKR LLP** had its **registration revoked** with the right to reapply after two years, and paid a **\$20,000** monetary penalty
- **WDM** had its **registration revoked**; and **Mike Kao**, who substantially contributed to the violations, was **barred**; both with the right to reapply after five years, and they received a joint **\$10,000** monetary penalty
- **RBSM LLP**, which was charged with QC violations only, agreed to the **appointment of an independent consultant** to review and evaluate, then make recommendations and test their implementation, paid a **\$50,000 monetary penalty**, and was **censured**

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MATTERS RELATING TO VIOLATIONS OF ATTESTATION STANDARDS

- Effective for fiscal years ending on or after June 1, 2014, the PCAOB adopted two attestation standards relating to reviews of Broker and Dealer reports
- The PCAOB has **sanctioned a number of firms and associated persons** for violations of these standards
- Recent settled orders:
 - ***Morey, Nee, Buck & Oswald, LLC; John P. Morey, CPA, and Gerard B. Nee, CPA*** (August 10, 2021)
 - ***Citrin Cooperman & Company, LLP; Joseph Puglisi, CPA; Mark Schniebolk, CPA; and John Cavallone, CPA*** (May 11, 2022)

IN THE MATTER OF *CITRIN COOPERMAN & COMPANY, LLP, ET AL.*

- **Puglisi**, the engagement partner, failed in two consecutive audits to sufficiently evaluate the broker-dealer's: (1) internal controls over compliance and (2) compliance with reserve requirements
 - Failed to test the whether accounts were appropriately classified as customer accounts or PAB accounts
- **Cavallone** and **Schneibolk**, as engagement quality reviewers for respective years, failed to properly evaluate the engagement teams' conclusions with respect to significant areas
- **Citrin Cooperman** was charged with violations of QC standards for failing to ensure that audit work was assigned to personnel having the required training and proficiency

IN THE MATTER OF *CITRIN COOPERMAN & COMPANY, LLP, ET AL. (CONT'D)*

- *Puglisi* received a **one-year suspension** with a **practice limitation for one additional year**, a monetary penalty of **\$25,000**, and **additional required training**
- *Schniebolk* and *Cavallone* received **one-year practice limitations**, a monetary penalty of **\$15,000 each**, and **additional required training**
- *Citrin Cooperman & Company, LLP* received a monetary penalty of **\$200,000** and was required to **undertake certain remedial actions**

OTHER NOTEWORTHY RECENT SETTLED MATTERS

- *In the Matter of **JLKZ CPA LLP and Jimmy P. Lee, CPA*** – April 19, 2022
- *In the Matter of **WWC, P.C.*** – April 19, 2022
- *In the Matter of **PricewaterhouseCoopers LLP [Canada]*** – Feb. 14, 2022

IN THE MATTERS OF JLKZ, AND JIMMY P. LEE, CPA; WWC, P.C.

- Unrelated matters that involved the use of unregistered Chinese firms to perform issuer audits
- **JLKZ CPA LLP** issued audit reports for two issuers despite not being in a position to express an opinion.
 - Audits performed by a Shanghai-based unregistered firm that received 80% of the audit fees.
 - **Jimmy P. Lee** substantially contributed to the firm's violations.
 - Received a two-year practice limitation and a joint monetary penalty with **Jimmy Lee** of **\$50,000**
- **WWC** used an unregistered Hong Kong firm in a "substantial role" for seven audits in which the firm issued audit reports.
 - Received a monetary penalty of **\$50,000** and was required to **undertake** and **certify completion** of certain QC improvements

IN THE MATTER OF *PRICEWATERHOUSECOOPERS LLP*

- Failure to establish quality control standards related to integrity and personnel management
 - Over 1,200 of the firm's audit professionals were involved in improper answer sharing in connection with the firm's mandatory internal training courses covering accounting, auditing and professional independence
- **PwC Canada** was **censured**, paid a monetary penalty of **\$750,000** and required to **take remedial actions** to address its QC failures

PCAOB CENTER FOR ENFORCEMENT TIPS, COMPLAINTS AND OTHER INFORMATION

E-mail: TIPS@pcaobus.org

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

Fax: 202-862-0757

Telephone: 800-741-3158

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

POLLING QUESTION

The Sarbanes-Oxley Act requires that monetary funds collected by the PCAOB as a result of enforcement actions be used to fund scholarships for accounting students. How many scholarships were awarded in 2022?

- a. 74
- b. 128
- c. 250
- d. 194

QUESTIONS

