

Division of Enforcement and Investigations Update

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Division of Enforcement and Investigations
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DISCLAIMER

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

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DIVISION OF ENFORCEMENT & INVESTIGATIONS

What we do.....



AGENDA

- Today I would like to discuss:
 - Enforcement program statistics for 2022-23
 - Range of potential sanctions and the effects of suspensions and bars and some consequences of allowing barred or suspended individuals to associate with registered firms
 - Coordination with the Securities and Exchange Commission
 - Current program outlook and priorities
 - Selected recent settled matters involving quality control violations
 - Other noteworthy 2022-23 settlements

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 *
Public Enforcement Orders	17	21	42	26
Total Civil Money Penalties	\$1.5M	\$1.1M	\$11M	\$7.7M

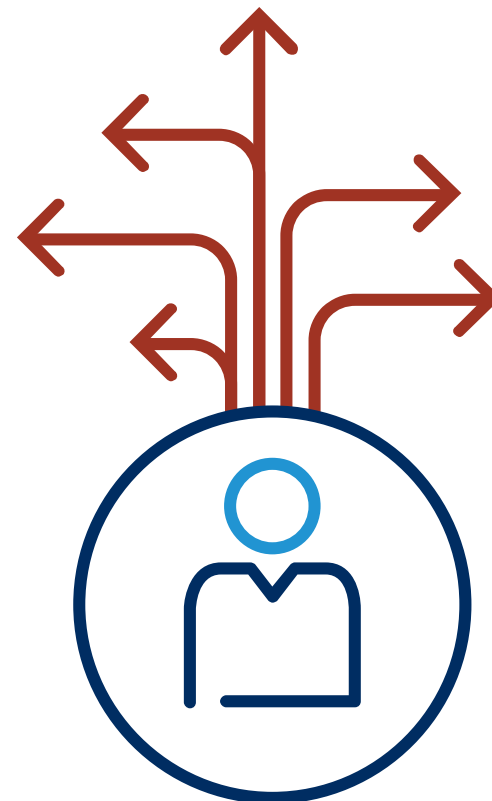
* Through September 30, 2023

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

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
- 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



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COORDINATION WITH THE SEC

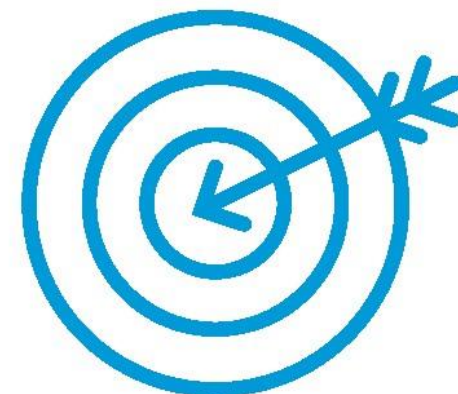
- PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Act
- Coordination with SEC Enforcement is standard practice
 - Parallel investigations: PCAOB investigates auditor conduct; SEC investigates public company, its management, and others
- PCAOB may defer its auditor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



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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., crypto assets, SPACs)
 - Expanding the types of cases we pursue (e.g., a single act of negligence where conduct is serious)



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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
 - These orders identified combinations of violations relating to quality control issues encompassing all five of the required elements of quality control

Noteworthy Recent Settled Matters

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
- The PCAOB found the firm's QC system failed to provide reasonable assurance it could execute audits with professional competence, including
 - To undertake only those engagements it could reasonably expect to complete with professional competence
 - To ensure that partner workloads allowed sufficient time for those individuals to discharge their responsibilities with professional competence and due care
 - To perform procedures to identify and assess the risks of material misstatement at the assertion level
 - To timely assemble complete and final sets of audit documentation
- Sanctions included:
 - \$3 million civil money penalty (largest ever for a non-affiliate firm)
 - Establishing a Chief Quality Officer and Audit Oversight Committee

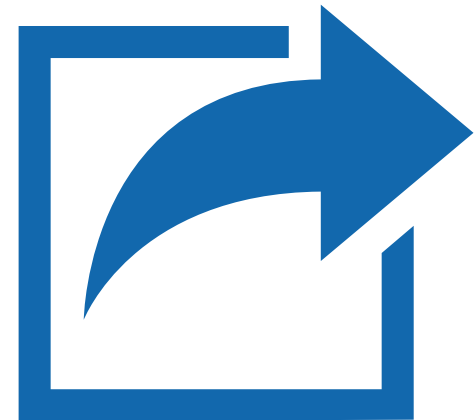
IN THE MATTER OF TOTAL ASIA ASSOCIATES PLT

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

- The PCAOB found that TAA's system of quality control failed to provide reasonable assurance that work performed by firm personnel met applicable professional standards, including:
 - 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
 - \$80,000 civil money penalty

OTHER NOTEWORTHY RECENT SETTLED MATTERS

- *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 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"

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IN THE MATTER OF EDDIE WONG, CPA AND NEIL W. EHRENKRANTZ, CPA (CONT'D)

(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 (CONT'D)

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

- The PCAOB found that SK&P 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
 - SK&P: \$150,000 civil money penalty and revocation of firm registration, with right to reapply after five years

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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

