

Division of Enforcement and Investigations Update

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Division of Enforcement and Investigations

May 22, 2024

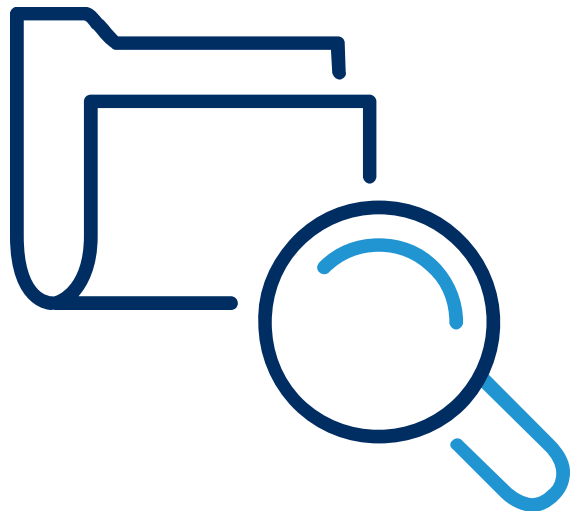
DISCLAIMER

The views I express are in my official capacity as a member of the Division of Enforcement and Investigations but are my own and do not necessarily reflect the views of the Board, Board Members, or other members of the staff.

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DIVISION OF ENFORCEMENT & INVESTIGATIONS

What we do.....



AGENDA

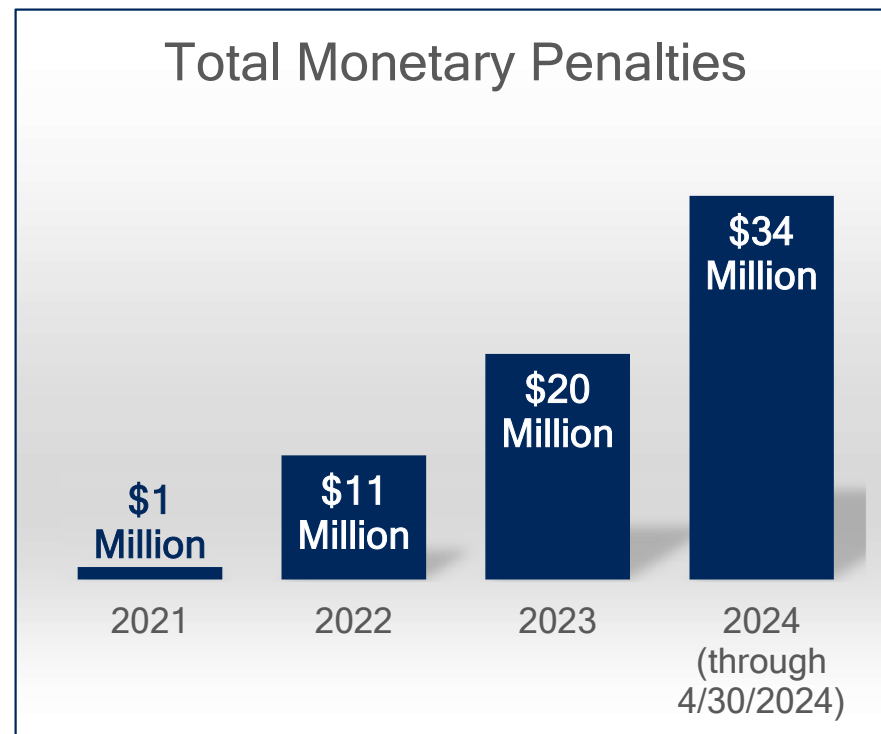
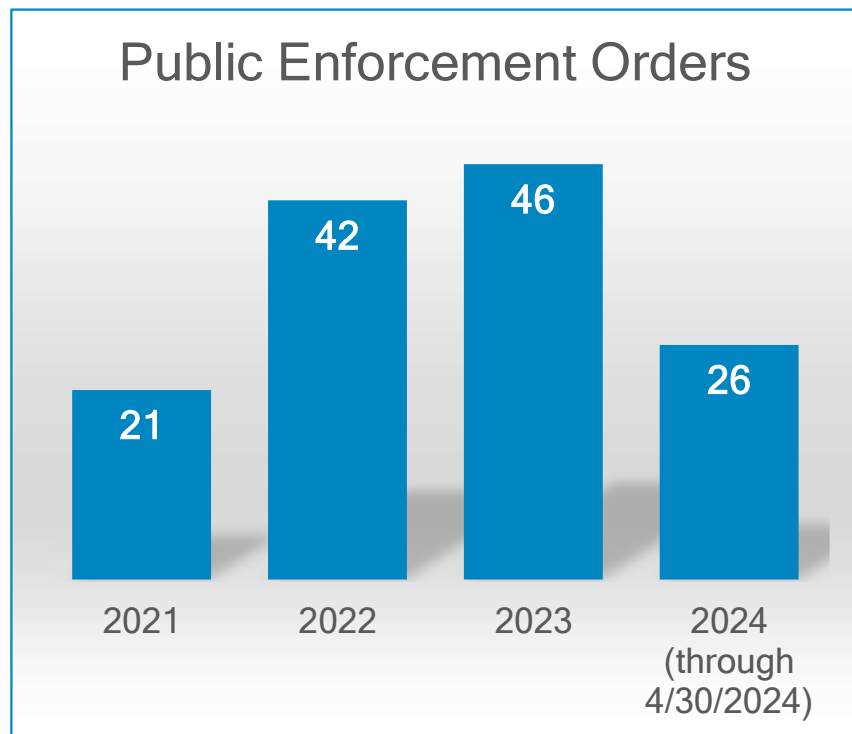
- Today I would like to discuss:
 - Enforcement program statistics for 2023-24
 - Range of potential sanctions and the effects of suspensions and bars and some consequences of allowing barred or suspended individuals to associate with registered firms
 - Coordination with the Securities and Exchange Commission
 - Current program outlook and priorities
 - Selected recent settled matters involving quality control violations
 - Other noteworthy 2023-24 settlements

PROGRAM STATISTICS FOR 2023 AND 2024

- Overview of 2023 Published Enforcement Orders:
 - 46 public enforcement orders issued, a 12% increase from 2022 and 119% increase from 2021
 - Roughly half of the public enforcement orders issued in 2023 were against firms or individuals outside the United States
 - First enforcement orders against China-related firms since the Board secured historic access to inspect and investigate firms headquartered in China
- Progress on 2024 Published Enforcement Orders:
 - 26 public enforcement orders issued through April 30, 2024



PROGRAM STATISTICS – ANNUAL TRENDS

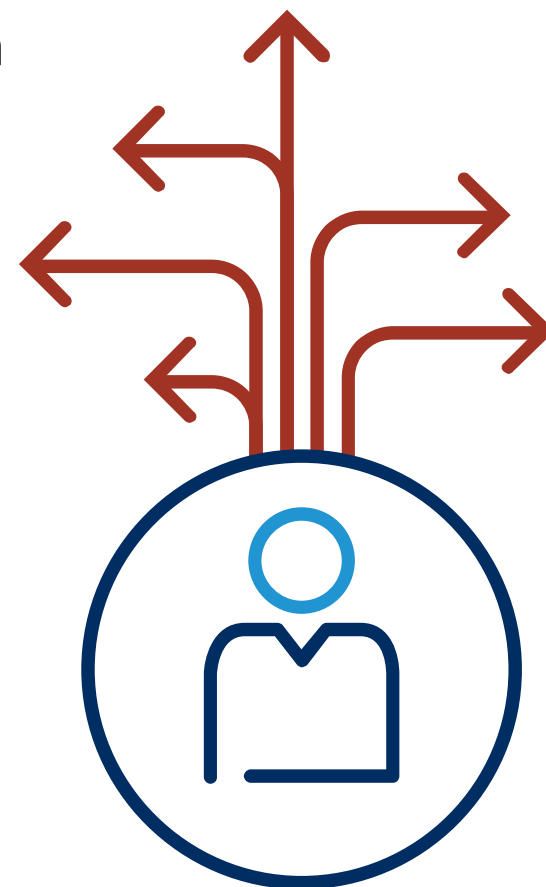


The PCAOB's 2022-2026 Strategic Plan seeks to strengthen the Enforcement Program, including through

- 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



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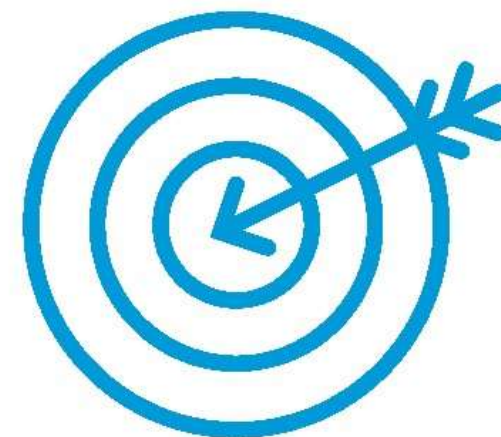
EFFECT OF SUSPENSIONS AND BARS

- 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



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
 - 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 control policies and procedures
 - Audit matters relating to new and evolving issues (*e.g.*, crypto assets, SPACs)



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 their 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 2023 through April 30, 2024, the Board settled matters involving quality control standards violations with approximately thirty 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

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COORDINATION WITH OTHER REGULATORS

- PCAOB may share information with the SEC, DOJ, and other agencies enumerated in the Act
- Coordination with SEC Enforcement is a standard practice
 - Auditor investigations may be deferred from one to the other
 - May result in parallel investigations
- Coordination with Foreign regulators through cooperative agreements
 - Facilitates evidence gathering and charging in foreign jurisdictions
 - May result in parallel investigations



Recent Noteworthy Settled Matters

IN THE MATTER OF SMYTHE LLP

(PCAOB RELEASE NO. 105-2023-026 – OCTOBER 24, 2023)

- In four issuer audits, Smythe used the work of unregistered firms in a substantial role capacity
 - Failure to evaluate the professional reputation of the unregistered firms with due professional care, despite knowing these firms performed more than 20% of total audit hours or incurred more than 20% of the total audit fees - the threshold for substantial role participation requiring Board registration
 - Failure to adequately plan the audits and to adequately determine whether it could serve as principal auditor
 - Failure to establish adequate QC policies and procedures concerning the use of the work of other accounting firms
- Sanctions included
 - \$175,000 penalty and QC undertakings concerning the use of audit work performed by other accounting firms

IN THE MATTERS OF HAYNIE & COMPANY, & RELATED

(PCAOB RELEASE NO. 105-2024-001 – JANUARY 23, 2024)

- Individuals violated PCAOB rules and standards while serving as engagement partner or EQR partner on two 2019 audits.
- Haynie violated PCAOB rules and standards on these audits, as well as PCAOB QC standards for failing to
 - Effectively implement policies and procedures to provide reasonable assurance that work performed by engagement personnel met professional standards and regulatory requirements
 - Establish policies and procedures to provide reasonable assurance that Haynie’s QC policies and procedures were suitably designed and effectively applied, and that its system of QC was effective

Related Orders: Tyson Holman, CPA, and Anna Hrabova, CPA (PCAOB Release No. 105-2024-002); Steven Avis, CPA, and Richard Fleischman, CPA (PCAOB Release No. 105-2024-003)

IN THE MATTERS OF HAYNIE & COMPANY, & RELATED

(PCAOB RELEASE NO. 105-2024-001 – JANUARY 23, 2024)

- Audit Violations
 - Failures to evaluate fair presentation and respond to fraud risk because audit procedures were based on superseded GAAP (i.e., ASC 605 not ASC 606)
 - Despite notice from prior PCAOB inspection, failures to sufficiently test the valuation and disclosure of certain material investments
 - Failure to evaluate the valuation of a significant acquisition because valuation was based on untested management projections
 - Failure to obtain sufficient appropriate evidence for cryptocurrency mining revenue because procedures based on superseded GAAP
- Sanctions included
 - Firm: \$400,000 penalty and undertakings
 - Individuals: \$190,000 combined penalty, bars on engagement partners (2 years) and practice limitations on EQR partners (1 year)₁₉

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IN THE MATTER OF WITHUMSMITH+BROWN, PC, (PCAOB RELEASE NO. 105-2024-010 – FEBRUARY 20, 2024)

- From Jan. 2020 to Dec. 2021, Withum accepted hundreds of SPAC audit clients, placing significant strain on its QC system
- The PCAOB found that the firm's system of QC failed to provide reasonable assurance that the firm 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
- Sanctions included
 - \$2 million civil money penalty
 - Requirement to engage an independent consultant to review and make recommendations concerning QC policies and procedures

IN THE MATTER OF KPMG ACCOUNTANTS N.V., & RELATED

(PCAOB RELEASE NO. 105-2024-022 – APRIL 10, 2024)

- From 2017 to 2022, hundreds of KPMG Netherlands professionals, including partners and senior firm leaders, engaged in answer sharing on tests for mandatory firm training courses
- Despite notice, the firm failed to take appropriate steps to monitor, investigate, and identify potentially unethical conduct
- Firm also submitted false representations during the investigation, claiming no knowledge of answer sharing, even though certain firm leaders responsible for those representations had themselves engaged in answer sharing
- Sanctions included a \$25 million civil money penalty
- Parallel investigation by Dutch Authority for Financial Markets (AFM) resulted in separate sanctions under Dutch law

Related Order: Marc Hogeboom (PCAOB Release No. 105-2024-023)

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

Telephone: 800-741-3158

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

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QUESTIONS

