

Division of Enforcement and Investigations Update

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Division of Enforcement and Investigations
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DISCLAIMER

Any views expressed are my own and do not necessarily reflect the views of the Board as a whole, any individual Board Members, or other staff.

DIVISION OF ENFORCEMENT & INVESTIGATIONS

What do we do.....

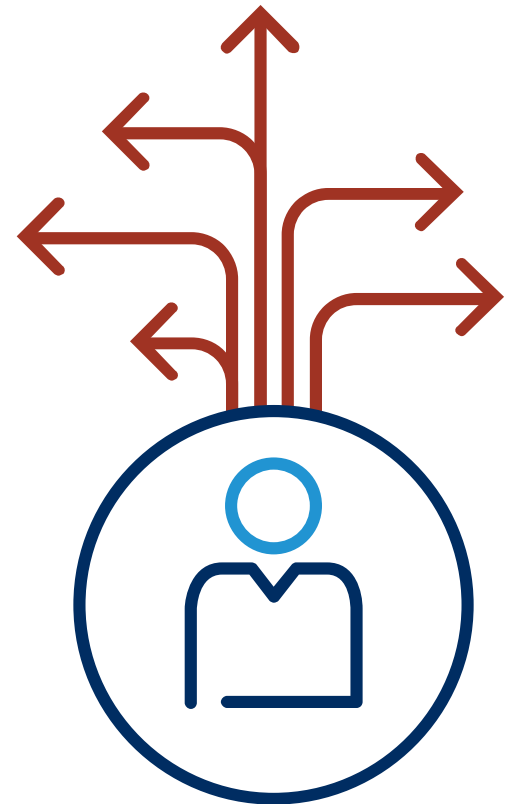


AGENDA

- Today I would like to discuss:
 - Range of possible enforcement sanctions and consequences
 - Coordination with the Securities and Exchange Commission
 - Current program outlook and priorities
 - 2020 program statistics
 - Selected recent settled matters involving quality control violations
 - Highlights of other noteworthy 2020 settlements

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*



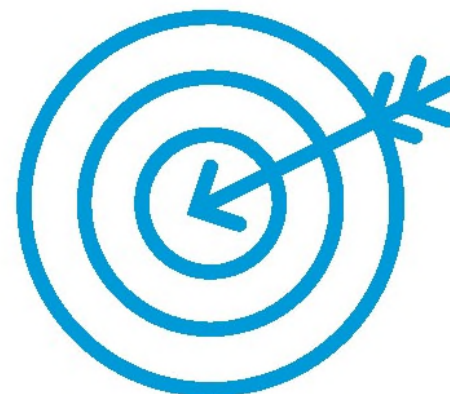
COORDINATION WITH THE SEC



- 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
- PCAOB seeks to avoid duplication of effort

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)



MATTERS INVOLVING INTERFERENCE IN BOARD PROCESSES

- Violations of PCAOB Rules governing registered firms' and associated persons' conduct with respect to a PCAOB inspection or investigation
 - *Non-cooperation matters threaten the integrity of the PCAOB's regulatory oversight process and are a high priority for DEI*
- These matters primarily involve providing improperly altered audit documentation to the PCAOB in its inspections or enforcement processes
- These matters can be pursued in isolation, or in conjunction with other audit standards violations
- The Board has settled or finalized adjudication in more than **70** non-cooperation matters, involving more than **100** firms and associated persons



2020 ENFORCEMENT PROGRAM STATISTICS

- Issued 17 settled disciplinary orders
 - For all these settled orders the respondents neither admitted nor denied the findings in the order, except as to the Board's jurisdiction over them
- Imposed more than \$1.5 million in penalties
 - One \$750,000 civil monetary penalty for a GNF firm, which involved quality control violations
 - Two \$200,000+ civil monetary penalties for non-affiliated firms, both of which involved quality control violations
- Continuing trend of disciplinary cases involving firm quality control violations
 - About one-half of firm cases in 2020 involved quality control violations

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 2020**, the Board settled matters involving quality control standards violations with **six** U.S. or International firms
- These violations were related to quality control issues in:
 - Engagement performance
 - Personnel management
 - Acceptance and continuance of clients and engagements
 - Monitoring

MATTERS RELATING TO DEFICIENCIES IN FIRM QUALITY CONTROLS

- Of the **six** firms that received sanctions for QC violations
 - **Three** firms' registrations were revoked, with rights to reapply ranging from one to three years
 - **Two** firms agreed to required undertakings as a part of their settlements
 - An independent consultant was additionally required as a part of the undertakings for one firm (Whitley Penn LLP)
 - One firm's undertakings are only applicable in the event the Board grants any future registration application, as its registration was revoked with a right to reapply after two years (Jones Simkins LLC)

IN THE MATTER OF WHITLEY PENN LLP, ET AL. – MAR. 24, 2020

- The Firm's associated persons, Powell and Lawlis, that served as engagement partners on two related entities failed to adequately evaluate the allowance for loan losses for significant borrowings of a major debtor
 - The EQR reviewer, Babb, for one of the entities failed to perform his review with due professional care
- The Firm, failed to design, implement and maintain a system of quality control that was suitable and appropriately comprehensive, including
 - Consultations with persons within or outside the firm on complex, unusual or unfamiliar issues
 - Policies and procedures to provide reasonable assurance the work performed met professional standards and regulatory requirements

IN THE MATTER OF WHITLEY PENN LLP, ET AL. – MAR. 24, 2020

- One engagement partner, **Powell**, received
 - A two year bar
 - A one-year practice limitation, commencing the termination of her bar, prohibiting her from serving as an engagement partner or EQR reviewer, among other limitations
 - Civil monetary penalty of \$25,000 and certain undertakings
- The other engagement partner, **Lawlis**, received
 - A one-year suspension
 - A one-year practice limitation, similar to Powell's, commencing at the conclusion of the suspension
 - Civil monetary penalty of \$15,000 and certain undertakings
- The EQR reviewer, **Babb**, received
 - A two year practice limitation, similar to Powell's
 - A civil monetary penalty of \$10,000 and certain undertakings

IN THE MATTER OF WHITLEY PENN LLP, ET AL. – MAR. 24, 2020

- **Whitley Penn** received
 - A civil monetary penalty of \$200,000
 - A requirement to retain an independent consultant to review, evaluate and implement any necessary enhancements to Whitley Penn's quality control policies and procedures for certain areas specified in the Order, including:
 - Consideration of subsequent discovery of facts
 - Consultations (including their scope and evaluation by EQR partner)
 - Monitoring (including selection for pre-issuance review, root cause analysis, post-issuance review and enhanced monitoring based on engagement risk)

IN THE MATTER OF GRANT THORNTON LLP, ET AL. – NOV. 5, 2020

- The Firm and its engagement partner on Erickson, an aviation services issuer, failed to take sufficient steps to understand the issuer's obligations relating to aircraft leases and to sufficiently consider red flags and other information in their evaluation of going concern
- The engagement partner, Homsley, also failed to supervise his engagement teams appropriately
- Leslie, the EQR partner, failed to evaluate the engagement teams' significant judgments
- The Firm and Homsley also violated audit documentation standards in misdating certain work papers prepared to remediate deficiencies in its audits of Erickson, after certain deficiencies were surfaced in a PCAOB inspection
 - The Firm's violations resulted, in part, from failures of its QC system to address dating of hard copy work papers

IN THE MATTER OF GRANT THORNTON LLP, ET AL. –

NOV. 5, 2020

- **Homsley** received
 - A bar with the right to apply after two years
 - A three-year practice limitation, commencing the termination of his bar, prohibiting him from serving as an engagement partner or EQR reviewer, among other limitations
 - A civil monetary penalty of \$15,000
- **Leslie** received
 - A two-year practice limitation, prohibiting him from serving as an EQR reviewer, among other limitations
- **Grant Thornton** received a civil monetary penalty of \$750,000

IN THE MATTER OF LIGGETT & WEBB, P.A., ET AL. – AUG. 25, 2020

- Liggett, the engagement partner, failed to obtain sufficient appropriate audit evidence with respect to significant unusual transactions involving a related party in two different year's audits
- The EQR partner, Webb, failed to evaluate the engagement teams' responses to the identified significant risks
- The Firm failed to maintain an adequate system of quality control to provide reasonable assurance its personnel met professional and regulatory requirements, and the Firm's standards of quality

IN THE MATTER OF LIGGETT & WEBB, P.A., ET AL. – AUG. 25, 2020

- **Liggett** received
 - A bar with the right to apply after two years
 - A one-year practice limitation, commencing the termination of his bar, prohibiting him from serving as an engagement partner or EQR reviewer, among other limitations
 - A civil monetary penalty of \$20,000
- **Webb** received
 - A one-year practice limitation, prohibiting him from serving as an engagement partner or EQR reviewer, among other limitations
 - A civil monetary penalty of \$10,000
- **Liggett & Webb** received a censure and civil monetary penalty of \$20,000

OTHER NOTEWORTHY 2020 SETTLED MATTERS

- *In the Matters of Marcum LLP, John E. Klenner, CPA and Helen R. Liao, CPA – Sep. 24, 2020*
- *In the Matter Ahmed & Associates CPA P.C. and Rizwan Ahmed, CPA– April 21, 2020*

IN THE MATTERS OF MARCUM LLP, KLENNER AND LIAO

- In these three related matters, the Firm and its engagement partner, Klenner, failed to perform appropriate procedures regarding significant unusual transactions between one of the issuer's wholly-owned Chinese subsidiaries and a Chinese purchasing agent for audits covering three years
- The EQR partner, improperly provided concurring approval when she knew of significant engagement deficiencies and further failed to maintain objectivity in performing her EQR
- The Firm, when accepting this engagement, became aware of serious risks associated with the audit, particularly related to the issuer's operations in China, yet assigned a new partner with no China-related experience and did not adequately oversee him

IN THE MATTERS OF MARCUM LLP, KLENNER AND LIAO

- **Klenner** received a censure and
 - A bar with the right to apply after two years
 - A one-year practice limitation, commencing the termination of his bar, prohibiting him from serving as an engagement partner or EQR reviewer, among other limitations
 - A civil monetary penalty of \$25,000 and certain undertakings
- **Liao** received a censure and
 - A bar with the right to apply after one year
 - A civil monetary penalty of \$15,000 and certain undertakings
- **Marcum LLP** received a censure, a civil monetary penalty of \$250,000 and also agreed to
 - Cease audits of issuers with substantially all of its operations in the People's Republic of China for three years
 - Undertake a review and evaluation of its QC policies and procedures for “higher-than-normal-risk” engagements and to report back to the Director of Enforcement

IN THE MATTER OF AHMED & ASSOC., ET AL.

- Rizwan Ahmed and his firm failed to obtain EQR's for three of their issuer audits
- The Firm further failed to disclosure certain reportable events to the Board on Form 3, as required by PCAOB rules
 - Ahmed, who had been named as a defendant in a U.S. criminal proceeding and charged with theft of government Medicare funds, pleaded guilty to that charge, but his Firm never filed the requisite Form 3
- **Ahmed** was barred and **his Firm's** registration was revoked, each with the right to reapply after three years and a civil monetary penalty of \$10,000 was imposed jointly and severally on the Firm and Ahmed

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>

QUESTIONS

Please submit any questions or feedback you might have on this presentation to forum@pcaobus.org.

