

## [Securities Regulation Daily Wrap Up, ACCOUNTING AND AUDITING— SEC sustains PCAOB findings, sanctions against firm and associates that altered work documents, \(Mar. 17, 2017\)](#)

Securities Regulation Daily Wrap Up

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By [Jacquelyn Lumb](#).

The SEC has sustained the PCAOB's findings that Kabani & Co., Inc. and three associated persons of the accounting firm engaged in a "widespread and resource-intensive" effort to alter documents in the audit files of three issuers in an attempt to deceive the Board's inspection staff about deficiencies in the firm's work papers. The respondents added or falsified hundreds of audit documents, reset computer clocks to conceal that the alternations were made before applicable deadlines, and backdated signatures on work papers. The PCAOB revoked the firm's registration, permanently barred Hamid Kabani, the firm's founder and president, from associating with a registered public accounting firm and ordered him to pay a \$100,000 civil money penalty. Michael Deutchman, the director of audit and accounting, was barred from associating with a firm and ordered to pay \$35,000. Karim Khan Muhammad, an audit manager, was barred from associating with a firm and ordered to pay \$20,000. All four respondents were censured (Release No. 105-2012-002, January 22, 2015). The respondents filed a petition for review after the Board issued its decision (*In the Matter of the Application of Kabani & Company, Inc.*, [Release No. 34-80201](#), March 10, 2017).

**PCAOB inspection.** The PCAOB informed the firm that it would be inspected in June 2008. Once the PCAOB informed the firm of the date of the inspection and the audits to be inspected, the respondents engaged in what they referred to as a PCAOB cleanup, spending hundreds of hours on three audits after the documentation deadlines. Rehan Saeed, a concurring reviewer for the firm, was given a list of audit files to review for missing documents and reported back with a list of deficient or missing audit documents. In response, respondents made alterations or additions to the work papers.

**Tip to PCAOB.** Saeed left the firm a year after the PCAOB's inspection. He then contacted the PCAOB staff about his concerns relating to the work papers in advance of the inspection. He provided the PCAOB with a thumb drive that contained copies of the audit files he reviewed, which resulted in an investigation. Saeed settled PCAOB proceedings in May 2013, without admitting or denying the findings that he failed to perform timely concurring reviews and backdated concurring review documentation. He was censured and barred from associating with a registered public accounting firm, with the right to petition the Board for consent to associate with a registered firm 18 months after the order was issued (Release No. 105-2013-004, May 21, 2013).

**PCAOB's initial decision.** During the investigation, the PCAOB's Division of Enforcement identified numerous documents that were added or altered before the inspection staff arrived. A PCAOB hearing officer issued an initial decision in April 2014 finding that the respondents violated the Board's rules by altering documents and attempting to deceive the inspectors about deficiencies in the work papers. The respondents petitioned the Board for review of the initial decision, and the Board summarily affirmed the findings and the imposition of sanctions in January 2015.

**SEC sustains findings.** The SEC, upon an independent review of the record, sustained the revocation of the firm's registration and the bars from associating with a registered public accounting firm imposed on Kabani, Deutchman, and Khan, finding that their violations were intentional, knowing and reckless. The SEC also sustained the imposition of civil money penalties and censures.

The release is [No. 34-80201](#).

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