Securities Regulation Daily Wrap Up, ACCOUNTING AND AUDITING—PwC and one partner fined nearly $8 million for independence, professional conduct violations, (Sept. 23, 2019)

Securities Regulation Daily Wrap Up

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By Mark S. Nelson, J.D.

PricewaterhouseCoopers LLP and one of its partners must pay a combined sum of nearly $8 million for violations of the SEC's and PCAOB's auditor independence and professional conduct rules regarding prohibited non-audit services.

The SEC charged PricewaterhouseCoopers LLP and PwC partner Brandon Sprankle with violating SEC and PCAOB rules regarding auditor independence and the provision of non-audit services. The SEC's twin orders alleged that PwC, through Sprankle, engaged in improper conduct by asserting its independence at a time when the firm was not, because of Sprankle's conduct, independent. Neither PwC nor Sprankle admitted or denied the SEC's findings, although PwC and Sprankle will pay combined fines of nearly $8 million to settle the SEC's charges (*In the Matter of PricewaterhouseCoopers LLP*, Release No. 34-87052, September 23, 2019; *In the Matter of Brandon Sprankle, CPA*, Release No. 34-87053, September 23, 2019).

Impermissible non-audit services. According to the SEC's orders, PwC and Sprankle violated SEC and PCAOB independence rules over a three-year period between 2013 and 2016. The violations allegedly involved 19 engagements with 15 SEC-registered companies.

Specifically, the SEC cited an engagement by PwC with an unnamed, SEC-registered company in which PwC, via Sprankle, was to provide non-audit services related to that company's financial reporting systems. PwC's and Spranklel's work involved the company's Governance, Risk and Compliance (GRC) systems and an upgrade to the company's enterprise software. SEC rules bar an accountant from taking on managerial functions for a company and from performing work that the accountant may later audit. The SEC alleged that Sprankle, upon being asked by the company if he and PwC could provide the requested services, assured the company that PwC could provide the services despite being aware that such assurances regarding the GRC work were contrary to PWC's policies and procedures. The SEC also cited an instance where PwC mischaracterized its non-audit services as audit services in violation of applicable PCAOB standards.

The SEC attributed PWC's and Sprankle's conduct to "breakdowns" in PwC's quality assurance systems. According to the SEC, PwC failed with respect to: (1) evaluating the nature and scope of non-audit services engagements; (2) how it characterizes audit and non-audit work; (3) how it monitors non-audit work to ensure the work is permitted; and (4) how it describes its audit and non-audit work to companies' audit committees.

Anita Bandy, associate director of the SEC's Enforcement Division, emphasized the prime role of auditors in ensuring the "reliability" and "integrity" of financial reports. "PwC repeatedly provided non-audit services without having effective quality controls in place for monitoring whether the services impaired its independence on audit engagements and were properly disclosed to audit committees," said Bandy in a press release.

Charges, sanctions, remedial efforts. The SEC charged that PwC and Sprankle violated several provisions of the federal securities laws. For one, both violated Rule 2-02(b)(1) of Regulation S-X's requirements for auditor independence (Sprankle was the cause of PwC's violation). PwC and Sprankle also were causes of reporting violations by the unnamed SEC-registered issuer mentioned by the SEC in its two orders in the matter. Those violations involved Exchange Act Section 13(a) and Exchange Act Rules 13a-1 and 13a-13. PwC and Sprankle also violated Exchange Act 4C(a)(2) and Commission Rule of Practice 102(e)(1)(ii) for engaging in improper professional conduct.

In assessing sanctions, the Commission mulled PwC's remedial efforts, which included providing more training to employees regarding SEC and PCAOB independence rules, disciplining employees who supervised the provision of prohibited non-audit services, and by creating an enhanced risk assessment program with renewed emphasis on policies and procedures for auditor independence. PwC also agreed to a detailed list of undertakings regarding implementation of its enhanced policies and procedures that require multiple reports and certifications to the SEC.

With respect to sanctions, PwC was ordered to stop violating applicable SEC and PCAOB rules, censured, and required to comply with the stated undertakings. PwC also must pay disgorgement (with interest) of more than $4.4 million and a civil money penalty of $3.5 million. Sprankle likewise was ordered to stop violating applicable rules and was denied the privilege of appearing or practicing before the Commission for a period of four years, after which he may request reinstatement. Sprankle also must pay a civil money penalty of $25,000.

The releases are No. 34-87052 and No. 34-87053.

Companies: PricewaterhouseCoopers LLP

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