UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 79109 / October 18, 2016

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3814 / October 18, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17628

In the Matter of **ERNST & YOUNG LLP,** **CRAIG R. FRONCKIEWICZ, CPA,** **AND** **SARAH E. ADAMS, CPA,** **Respondents.**	**ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 4C AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER ("ORDER")**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Ernst & Young LLP ("Ernst & Young"), Craig R. Fronckiewicz, CPA ("Fronckiewicz"), and Sarah E. Adams, CPA (collectively, "Respondents"), pursuant to Sections 4C[1] and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 102(e)(1)[2] of the Commission's Rules of Practice.

II.

[1] Section 4C provides, in relevant part, that:
The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

[2] Rule 102(e)(1)(ii) provides, in pertinent part, that:
The Commission may censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement ("Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceeding brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order, as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds[3] that:

SUMMARY

1. This matter involves violations of the federal securities laws and improper professional conduct by Ernst & Young, Fronckiewicz, and Adams while serving as the external auditor, coordinating (*i.e.,* signing) partner, and tax partner, respectively, for Weatherford International plc f/k/a Weatherford International Ltd. ("Weatherford"). In connection with its 2007-2010 financial statements, Weatherford, a large multinational provider of oil and natural gas equipment and services, issued false financial statements that inflated its earnings in violation of U.S. Generally Accepted Accounting Principles ("GAAP"). Weatherford improperly inflated its earnings and materially understated its effective tax rate ("ETR") and tax expense through the use of deceptive intercompany tax accounting.

2. During each of those years, Weatherford repeatedly and publicly disclosed ETR and recorded tax expense it knew, or was reckless in not knowing, were fabricated. Each year, Weatherford made unsupported post-closing adjustments to accounting data that intentionally lowered its actual ETR and tax expense. To do so, Weatherford reversed accounting data that had been correctly input into Weatherford's consolidated tax provision from the company's accounting system. Weatherford's fraud created the misperception that the tax structure it designed to reduce its tax expense and ETR was far more successful than it actually was. From 2007 to 2010, Weatherford regularly touted its favorable ETR to analysts and investors as one of its key competitive advantages, which it attributed to its superior international tax avoidance structure. The purportedly lower ETR rates that Weatherford reported throughout this period proved illusory, however.

3. On March 1, 2011, Weatherford announced that it would be restating its financial results for 2007-2010 and that a material weakness existed in its internal control over financial reporting ("ICFR") for the accounting of income taxes. That restatement, which was filed on March 8, 2011, reduced previously reported net income by approximately $500 million (the "First Restatement"). $461 million of the First Restatement resulted from a four-year income tax accounting fraud. After announcing the First Restatement, Weatherford's stock price declined nearly 11% in one trading day ($2.38 per share), closing at $21.14 per share on March 2, 2011. The decline eliminated over $1.7 billion from Weatherford's market capitalization.

[3] The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

4. Ernst & Young's audit team, including Fronckiewicz and Adams, did not detect the four-year fraud. The audit team was aware of the existence of the post-closing adjustments each year. However, they failed to perform audit procedures required by Public Company Accounting Oversight Board ("PCAOB") standards that would have likely uncovered the fraudulent scheme as early as 2007 and in each year thereafter. In addition, during 2010, the audit team failed to perform any additional inquiries or perform other appropriate procedures during quarterly reviews of Weatherford's financials to ascertain why the company was experiencing a huge unexplained income tax receivable that grew to over $400 million by year-end 2010.

5. Respondents failed to comply with PCAOB standards related to due professional care, professional skepticism, supervision, staffing, training, and documentation. Ernst & Young issued audit reports, signed by Fronckiewicz, containing unqualified opinions on the financial statements in Weatherford's 2007, 2008, and 2009 Form 10-Ks, which contained material misstatements. Ernst & Young's reports, which Respondents knew would be filed with Weatherford's Form 10-Ks, inaccurately stated that Ernst & Young conducted its audits in accordance with PCAOB standards and that Weatherford's financial statements were fairly presented in all material respects in conformity with GAAP.

6. Throughout the relevant period, Ernst & Young's National Office issued annual findings to its personnel recognizing the need for increased focus and expanded audit procedures due to the audit teams' failure on "more than an infrequent basis" to conduct audits of income tax accounting in accordance with PCAOB standards. The National Office also indicated that it was an area requiring significant improvement. However, Ernst & Young did not take effective measures to minimize the likelihood of failed audits, which led to its failure to detect the Weatherford fraud.

7. By failing to comply with PCAOB standards, Respondents were a cause of Weatherford's issuance of materially false and misleading financial statements in its periodic filings and submissions from 2007 through the third quarter of 2010 and, therefore, were a cause of Weatherford's violations of Exchange Act Section 13(a) and Exchange Act Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder.

8. As a result of the conduct described herein, Respondents also violated the federal securities laws and rules and regulations thereunder pursuant to Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

RESPONDENTS

9. **Ernst & Young LLP** is a professional services limited liability partnership, headquartered in New York City, with offices located throughout the United States. It is a member firm of Ernst & Young Global Limited and provides auditing, consulting, and tax services to a variety of companies, including companies whose securities are registered with the Commission and trade in the U.S. markets. Ernst & Young was Weatherford's auditor from 2001 to March 2013. On March 7, 2013, Weatherford's audit committee decided not to re-appoint Ernst & Young.

10. **Craig R. Fronckiewicz**, age 50, of Spring, Texas is an assurance partner at Ernst & Young. Fronckiewicz was the coordinating partner and had final responsibility for the audits and quarterly reviews of Weatherford's financial statements from 2006 through fiscal year-end 2010. As the coordinating partner, Fronckiewicz supervised Ernst & Young's engagements to audit and review Weatherford's financial statements throughout that period. Fronckiewicz was an engagement partner on the Weatherford audit in 2004 and 2005. Throughout the relevant period, Fronckiewicz was licensed as a Certified Public Accountant ("CPA") by the State of Texas.

11. **Sarah E. Adams**, age 52 of Houston, Texas, was a tax partner at Ernst & Young until July 2014 and a member of the firm's federal tax group. Adams served as the tax partner on the Weatherford audit engagement team from 2007 through March 2013. As the tax partner, Adams reviewed the work of, and supervised Ernst & Young's tax professionals on the audit engagement team who performed audit and review procedures related to Weatherford's income tax accounting throughout that period. Adams was the tax senior manager on the Weatherford audit from 2001 through 2006. Throughout the relevant period, Adams was licensed as a CPA by the States of Alabama and Texas.

RELEVANT ENTITY

12. **Weatherford International plc f/k/a Weatherford International Ltd.** is a multinational Irish public limited company based in Switzerland, with offices in Houston, Texas. Weatherford's shares are registered with the Commission pursuant to Exchange Act Section 12(b) and are listed on the NYSE under the symbol "WFT." Weatherford files periodic reports, including Forms 10-K and 10-Q, with the Commission pursuant to Exchange Act Section 13(a) and related rules thereunder.

FACTS

Weatherford's Aggressive Tax Strategy

13. Throughout Ernst & Young's tenure as Weatherford's auditor, Weatherford employed an aggressive strategy to become a top-tier multinational provider of oil and natural gas equipment and services. One part of that strategy was based on exponential revenue growth fueled by hundreds of acquisitions designed to expand Weatherford's multinational footprint. During the decade before its March 2011 restatement, Weatherford's revenue increased from $1.8 billion to $10.2 billion.

14. Another key component of Weatherford's strategy was to develop a superior international tax avoidance structure that reduced the company's ETR and tax expense (and increased Earnings Per Share ("EPS") and cash flow) while providing a competitive advantage over U.S.-based peer companies. In 2002, Weatherford changed its place of incorporation from the U.S. to Bermuda, a 0% tax jurisdiction, through a process known as inversion.[4] From 2003 through

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[4] In 2009, Weatherford took steps to preserve the tax avoidance structure it created by changing its place of incorporation from Bermuda to Switzerland through a series of share exchange transactions commonly referred to as redomestication. In 2014, Weatherford changed its place of incorporation from Switzerland to Ireland when, through merger agreement, Weatherford International plc, an Ireland-based public limited company, became the new public holding company/parent of Weatherford's group of companies.

2006, Weatherford further refined its international tax structure by implementing a series of hybrid instruments to facilitate the movement of revenue from higher tax rate jurisdictions (*e.g.*, Canada and United States) to lower tax rate jurisdictions (*e.g.*, Hungary and Luxembourg).

15. While these international tax avoidance strategies reduced Weatherford's ETR from 36.3% in 2001 to 25.9% by the end of 2006, its CFO remarked that Weatherford's ETR remained somewhat above that of other inverted peer companies in his response to an analyst's question during the company's year-end earnings call on January 30, 2007. Soon thereafter, Weatherford started reporting ETR results that created a false perception that its international tax structure was outperforming similarly-situated competitors by a significant margin. For example, in 2008 and 2009, fueled by its deceptive income tax accounting practices, Weatherford reported pre-restatement ETRs of 17.1% and 6.5%, respectively.

16. In connection with fiscal years 2007 through 2010, Weatherford's Vice President of Tax ("VP of Tax") and tax manager engaged in fraudulent practices relating to income tax accounting that violated GAAP and made Weatherford's financial statements materially false and misleading. Each year, they made or authorized unsupported post-closing adjustments within a line item on the consolidated tax provision labeled intercompany "dividend exclusion."[5] These dividend exclusion adjustments, which ranged from $286 million to $439 million per year, involved different Weatherford entities within Weatherford's corporate elimination account, which was known as the "Eliminations region." These adjustments were then tax effected at 35%, which falsely lowered Weatherford's year-end provision for income taxes by $100 million to $154 million each year. These dividend exclusion adjustments also overstated net income, understated ETR and tax expense, and ultimately created a $461 million phantom income tax receivable. These adjustments were made to allow Weatherford's reported ETR and earnings results to better align with analysts' expectations and Weatherford's previously-announced projected results.

Ernst & Young's High-Risk Assessments of Weatherford

17. In 2001, Weatherford became a client of Ernst & Young's Southwest Region, with the engagement team based in Houston. Weatherford quickly became one of the largest clients in the region. It also had a widely-held reputation in Ernst & Young's Southwest Region as a particularly risky and difficult client. From at least 2004, Ernst & Young concluded that Weatherford posed a "significant risk to the firm; that is, there is a significant chance the firm will suffer damage to its reputation, monetarily, or both." Accordingly, Ernst & Young designated "close monitoring" status upon Weatherford, the highest-risk category that the firm recognized. Risk factors the firm specifically identified in reaching this assessment included factors that were among the causes of the audit failure in this matter, including:

- a history of completing significant or unusual transactions shortly before or at year-end or quarter end;
- an ability to book journal entries without multiple levels of review;

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[5] Dividend exclusion represents the amount of intercompany dividends that a corporation must exclude from its taxable income.

- difficulties in auditing Weatherford's complex tax structure in a timely manner;
- pressure on management to meet earnings and EPS requirements; and
- significant pressure for "marginal GAAP."

Ernst & Young's policies and procedures, which were not adhered to by Ernst & Young's audit team, required more detailed review by senior engagement professionals when auditing close-monitoring clients, in recognition of basic audit and quality control standards that required heightened professional due care and scrutiny when faced with a higher risk of material misstatement.

18. Ernst & Young consistently perceived Weatherford as a challenging and demanding client known for taking aggressive accounting positions. This was particularly true in the area of income tax accounting, where Weatherford employed a complex international tax structure that raised significant concerns for Ernst & Young engagement personnel and required formal and informal consultations with Ernst & Young's National Professional Practice Group ("PPG") dating back to at least the 2006 fiscal year audit.

19. In 2005, the audit team was aware of numerous errors affecting deferred tax asset and liability cumulative balances that were caused by Weatherford's failure to maintain tax basis balance sheets. Ernst & Young ultimately determined that these errors reflected a single ICFR significant deficiency and not a material weakness. In 2006, PPG was consulted on material out-of-period income tax accounting errors identified by Ernst & Young tax engagement personnel that enabled Weatherford to meet its fourth quarter earnings projections. Ernst & Young concluded, after consultation with PPG, that an ICFR deficiency existed because Weatherford's internal supervisory review of its consolidated tax provision was not being executed with sensitivity high enough to detect or prevent a financial misstatement. Weatherford's income tax accounting, therefore, warranted Respondents' heightened skepticism as an area that presented a high risk of financial misstatement.

20. These and other elevated risks associated with Weatherford's tax accounting raised considerable red flags for Respondents, in part, because they involved an audit area that was inherently high risk and one that Ernst & Young itself had recognized was in need of significant improvement due to recurrent issues on multiple audit engagements. For example, Ernst & Young's policies and procedures required its auditors to conduct significantly more detailed review of income tax workpapers than those in other, less risky, areas. Ernst & Young's policies and procedures, which were not adhered to by the audit team, regarding tax workpapers required the following heightened supervisory audit review by both assurance and tax professionals on all Commission registrant engagements:

- assurance professionals must perform a detailed and second (or executive) level review of the income tax working papers; and
- the tax review must be performed by a tax executive director, principal, or partner with the appropriate experience and background.

Ernst & Young's policies and procedures made clear that audit procedures over income tax accounting required a collaborative approach in which both tax and assurance personnel were viewed as members of the engagement team, both responsible for performing their work in

accordance with PCAOB standards. Under applicable PCAOB standards, Adams was an assistant responsible for assisting Fronckiewicz in the planning and supervision of certain areas of the audit.

21. While these policies and procedures applied to all of Ernst & Young's Commission registrant clients, the need for extensive supervision and review in the area of income tax accounting was especially important in the highest-risk environments of its close monitoring engagements, such as the audit of Weatherford and its income tax accounting. As described herein, Respondents failed repeatedly to follow or adequately supervise that these policies and procedures were followed.

Weatherford Engages in Fraud in 2007

22. In December 2006, Weatherford, through its VP of Tax, initially forecasted an ETR of 29% for fiscal year 2007. However, Weatherford emails among its senior management reflected that the company was under pressure to meet Wall Street expectations and to offset shortfalls in its quarterly earnings targets by lowering its ETR.

23. Throughout the first three quarters of 2007, Weatherford recorded ETR and tax expense pursuant to FIN 18, "*Accounting for Income Taxes in Interim Periods.*" FIN 18 prescribes an estimated annualized ETR approach for computing the tax provisions for the first three quarters of the year, which is based on a company's best estimate of current year ordinary income. GAAP, however, does not allow companies to use FIN 18 to calculate their year-end tax provisions. GAAP required Weatherford to record ETR and tax expense at year end pursuant to FAS 109, "*Accounting for Income Taxes*."[6] FAS 109 establishes standards on how companies should account for and report the effects of income taxes, including the calculation of the year-end consolidated tax provision.

24. Shortly before Weatherford was scheduled to release its year-end financial results for 2007, Weatherford's VP of Tax and its tax manager discovered the year-end ETR and tax expense that had been calculated pursuant to FAS 109 far exceeded ETR estimates and tax expense disseminated publicly to analysts and investors during the first three quarters of 2007 based on their FIN 18 estimates. Faced with what they considered to be an immovable deadline for reporting earnings, the Weatherford VP of Tax and tax manager falsified the year-end consolidated tax provision by making an unsubstantiated manual $439.7 million post-closing "plug" adjustment to two different Weatherford Luxembourg entities within Weatherford's Eliminations region. To do so, they intentionally reversed accounting data that had been correctly input to Weatherford's consolidated tax provision via the company's accounting system, as follows:

[6] Effective for interim and annual periods ending after September 15, 2009, FASB codified authoritative accounting literature in the Accounting Standards Codification. As such, FIN 18 and FAS 109 were superseded by ASC Topic 740. The substantive provisions of the codified guidance are consistent with the superseded standards.

Unsupported Manual Entries - Fiscal Year 2007	
WFT Luxembourg SARL	$195,430,220
WFT Financing (Luxembourg) SARL	$244,298,216
Total Unsupported Adjustment	$439,728,436
Tax Rate Improperly Applied	35%
2007 Plugged Tax Benefit	**$153,904,953**

25. The resulting plug adjustment, which the VP of Tax and tax manager then improperly applied a 35% tax rate to, allowed Weatherford to reduce its tax expense by $153.9 million for the year and to lower its ETR in line with previous estimates publicly disclosed during quarterly calls with analysts. As a result, the ETR announced to analysts and investors during its year-end conference call allowed Weatherford to ultimately meet Wall Street's earnings expectations.

Respondents' Fiscal Year 2007 Audit

26. During 2007, when Weatherford's fraud began, the company was, based on audit fees, Ernst & Young's 14th largest close monitoring client firm-wide and the fourth-largest close monitoring client in its Southwest Region, in terms of audit fees. As part of its yearly client continuance process, Ernst & Young once again classified Weatherford as close monitoring based, in part, upon the following characteristics:

- a domineering CEO,
- rapid growth and acquisitive nature of the company,
- a history of completing significant or unusual transactions at quarter-end or year-end,
- a concern that Weatherford "operates in a decentralized manner and has the ability to book journal entries without multiple levels of review," and
- the difficulty of auditing Weatherford's complex tax structure in a timely fashion.

Further, as noted above, the audit team had identified Weatherford as having a significant deficiency in 2005 for not maintaining tax basis balance sheets, and in consultation with PPG, made a 2006 deficiency determination regarding control issues over Weatherford's tax provision. Despite the close monitoring high risk status and known deficiencies in its controls over income taxes, virtually all of the 2007 audit procedures regarding Weatherford's income tax accounting were conducted by Ernst & Young's tax professionals without sufficient detailed assistance from, or coordination with, assurance personnel, as required by Ernst & Young policies.

27. During the audit, a tax senior under Adams who was tasked with reviewing Weatherford's consolidated tax provision brought the $439 million manual post-closing adjustment to Adams' attention. Her emails to Adams ("This deserves a huh?") and to the Weatherford tax manager (". . . I do not mean to sound like a broken record, but I am not following this.") made clear there were significant unanswered questions surrounding the dividend exclusion adjustment.

28. Although Weatherford, its VP of Tax, and its tax manager did not inform Respondents that they had backed into the ETR by putting in a plug to match what they expected the ETR to

be, their oral explanation of the reason for the adjustment (that it was made in order to achieve better matching of intercompany activity per tax given the Eliminations region has a 35% ETR and Luxembourg has a 0% ETR) did not make sense. Nevertheless, the audit team, including Adams, ultimately accepted oral representations from Weatherford regarding the basis for the adjustment without any corroborating documents. Adams then signed off on the income tax audit workpapers. Fronckiewicz signed off on the tax provision workpapers that reflected the dividend exclusion adjustment, but did not sign off on the workpapers identifying Weatherford's oral explanations for the adjustment.

29. Fronckiewicz and Adams both were aware of the adjustment and its material impact on reducing Weatherford's ETR, yet they failed to review meaningfully or substantiate the adjustment through basic reconciliation or other audit procedures that likely would have revealed the error. Fronckiewicz and Adams neither performed, nor asked others to perform, any corroborating procedures to substantiate the $439 million dividend exclusion adjustment that drove Weatherford's ETR down by approximately nine percent for the year. Despite signing off on an audit checklist indicating that such steps had been performed, Fronckiewicz did not ensure that assurance personnel performed "required detailed and second-level reviews" of the income tax accounting workpapers prepared and reviewed by Ernst & Young tax engagement personnel. This was contrary to Ernst & Young's policies.

<u>Weatherford's Fraud Continues From 2008 Through 2010</u>

30. During 2008-2010, Weatherford's tax department again observed large gaps between the actual ETR and tax expense it calculated at year-end and the lower estimated ETR and resulting tax expense that it had reported to analysts and investors. During 2008-2010, Weatherford's tax department made additional unsubstantiated manual post-closing dividend exclusion adjustments, or plugs, between $286.6 million to $303.6 million each year and overrode accounting data that had been automatically and correctly input into Weatherford's consolidated tax provision. These dividend exclusion adjustments, which involved Luxembourg and Bermuda entities within Weatherford's Eliminations region, improperly lowered Weatherford's tax expense by $106.3 million, $101.6 million, and $100.3 million during 2008, 2009, and 2010, respectively.

Unsupported Manual Entries - Fiscal Year 2008	
WFT Luxembourg SARL	$195,429,960
WFT Investment (Luxembourg) SARL	$108,245,404
Total Unsupported Adjustment	$303,675,364
Tax Rate Improperly Applied	35%
2008 Plugged Tax Benefit	**$106,286,377**

Unsupported Manual Entries - Fiscal Year 2009	
Total Unsupported Adj. - WFT Bermuda Ltd.	$290,407,796
Tax Rate Improperly Applied	35%
2009 Plugged Tax Benefit	**$101,642,729**

Unsupported Manual Entries - Fiscal Year 2010	
Total Unsupported Adj. - WFT Bermuda Ltd.	$286,632,936
Tax Rate Improperly Applied	35%
2010 Plugged Tax Benefit	**$100,321,528**

31. In addition to year-end, Weatherford made an earlier plug adjustment each year to conceal its scheme during a "pretend" hard close of Weatherford's third quarter tax accounts and tax provisions. The pretend hard close was a "dry run" that permitted Ernst & Young's audit team to conduct early testing of tax accounts and identify potential control and financial statement issues in advance of the year-end audit. During both the pretend hard close and at year-end, the audit team failed to obtain, review, and analyze supporting documentation for the dividend exclusion adjustments and then signed off on the reasonableness of Weatherford's accounting at year end.

32. For three of the four fiscal years, the dividend exclusion adjustments involved different entities within Weatherford's Eliminations region, a red flag missed by the audit team. For example, the dividend exclusion adjustments made within Weatherford's Eliminations region in 2009 and 2010 involved the same Bermuda entity, but the dividend exclusion adjustments made in 2007 and 2008 were associated with three different Luxembourg entities. Weatherford also aggravated the magnitude of the fraud by inappropriately tax-effecting these adjustments by attributing a 35% tax rate to calculate the "tax benefit" purportedly associated with either 0%-tax-rate (Bermuda) or low-single-tax-rate (Luxembourg) jurisdictions.

Respondents' Fiscal Year 2008 Audit

33. As the fraud continued into 2008, Weatherford was, based on audit fees, Ernst & Young's 13th largest close monitoring client firm-wide and the third-largest close monitoring client in its Southwest Region. Prior to the initiation of the 2008 audit engagement, Ernst & Young reconfirmed Weatherford's "close monitoring" status based on many of the same high-risk characteristics identified in 2007, as well as some additional concerns, including low bond

ratings, a then-ongoing Foreign Corrupt Practices Act investigation,[7] and the risk that "pressure exists for [Weatherford] management to meet the earnings and EPS requirements or expectations of third parties." Indeed, the audit planning documents for 2008 explicitly identified concerns about Weatherford's "extreme sensitivity to earnings and the possible pressure that could be imposed on the tax director to decrease the effective tax rate." Ernst & Young's engagement team, however, did not modify its audit plan or procedures to consider the significant risk of material misstatement stemming from concerns regarding Weatherford's tax director, who was the VP of Tax, and its tax department until the 2010 audit.

34. Ernst & Young's fiscal year 2008 audit procedures for Weatherford's income tax accounting again were conducted by its tax engagement personnel without significant assistance from, or coordination with, assurance personnel. Once again, the tax senior from the prior year's engagement, now a first year tax manager, identified the tax adjustment and questioned Weatherford's responses regarding the $303.7 manual dividend exclusion adjustment, which generated a tax benefit to Weatherford of $106.3 million and increased net income by the same amount.

35. Ernst & Young's first-year tax manager tried to corroborate the initial answers she received from Weatherford's tax manager by obtaining documentation and challenging Weatherford's tax treatment of the adjustment, which involved a different combination of Luxembourg entities within Weatherford's Elimination region than those used in 2007. However, she was unable to corroborate Weatherford's misleading explanations for the adjustment. The questions the first-year tax manager raised about the adjustments remained unresolved as Weatherford's Form 10-K filing date drew near. As late as February 23, 2009, just one day before Weatherford filed its fiscal year 2008 Form 10-K, she continued to receive inconsistent and incomprehensible answers about the basis for the dividend exclusion adjustment from Weatherford's tax manager that neither she nor Adams could resolve.

36. The issues identified by the first-year tax manager should have raised red flags for the audit team concerning the adjustment itself and why the adjustment was made to different Luxembourg entities than those used in the prior year. Instead, on February 23, 2009, Fronckiewicz and Adams signed off on the engagement team's Income Tax Review Memorandum ("Memorandum") summarizing the engagement team's audit procedures over Weatherford's income tax accounting. The Memorandum contained representations that "we believe that all significant tax matters, tax exposure items, and financial statement presentation and disclosure matters have been considered during our audit . . . and appropriately addressed." The Memorandum went on to state that "the income tax accounts are free of material error" and that "we believe the tax working papers appropriately document the procedures performed, evidence obtained, and conclusions reached by us in performing our tax review."

37. On February 24, 2009, the day after Fronckiewicz and Adams signed off on the Memorandum, the first-year tax manager performed additional work at Adams' request. That

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[7] In November 2013, the Commission and U.S. Department of Justice charged Weatherford with committing widespread FCPA and sanctioned-country violations that led to Weatherford's payment of nearly $253 million in fines. *SEC Charges Weatherford International with FCPA Violations,* SEC Press Release 2013-252 (November 26, 2013).

day, the first-year tax manager drafted an audit workpaper which demonstrated that Weatherford's post-closing, $303 million, manual adjustment was erroneously attributed to two Luxembourg entities. Rather than challenge the legitimacy of Weatherford's adjustment, however, Adams signed off, on February 24, 2009, on workpapers that changed the dividend exclusion adjustment to a Weatherford Bermuda entity in a 0% tax jurisdiction rather than Weatherford's proposed Luxembourg entities. The audit team then re-applied Weatherford's application of a 35% tax rate benefit to the newly made adjustment involving Bermuda.[8] Later that same day, Weatherford filed its Form 10-K for fiscal year 2008. There was no explanation in the workpapers for why Weatherford applied the 35% tax rate benefit to a Bermuda entity, which the audit team knew was a 0% tax jurisdiction.

38. Although Weatherford, its VP of Tax, and its tax manager did not inform the audit team of the true reason for the 2008 dividend exclusion adjustment, Fronckiewicz and Adams neither performed, nor asked others to perform, any corroborating procedures to support the basis for the adjustments. Required reconciliation or other audit procedures would have likely identified the error or, at a minimum, revealed that there was no reasonable basis for making this adjustment as the Bermuda tax rate was 0%. Fronckiewicz did not review the relevant workpapers and once again failed to ensure his assurance personnel performed the required detailed and second-level reviews of the income tax accounting workpapers, as required by Ernst & Young's policies. Fronckiewicz and Adams were both aware of the dividend exclusion adjustment before signoff. Adams knew, and Fronckiewicz knew, or should have known, that Weatherford made similar post-closing adjustments the year prior that lacked supporting documentation.

Respondents' Fiscal Year 2009 Audit

39. In 2009, Weatherford became, based on audit fees, Ernst & Young's 8th largest close monitoring client firm-wide and the largest close monitoring client in the Southwest Region. Prior to the initiation of the 2009 engagement, Ernst & Young reconfirmed Weatherford's "close monitoring" status based on many of the same high-risk characteristics it identified in 2007 and 2008. As in 2008, the engagement team did not appropriately modify its audit plan and procedures over Weatherford's income tax accounting despite the identified risks, including the knowledge that Weatherford had made sizeable post-closing adjustments without supporting documentation in the prior two years. Ernst & Young's 2009 audit procedures over Weatherford's income tax accounting again were conducted by tax personnel without significant assistance from, or coordination with, assurance personnel, as required by Ernst & Young policies. Indeed, the budgeted audit plan prepared by Fronckiewicz, with input from Adams, contemplated that virtually all of the audit procedures regarding Weatherford's income tax accounting would be conducted by Ernst & Young tax personnel.

40. In December 2009, just after the commencement of the fiscal year-end audit, the previous year's tax manager on the engagement resigned from Ernst & Young. Adams understood that this resignation required the engagement team members to perform work at levels higher than what they thought they might be comfortable doing. While a new tax senior manager was

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[8] Weatherford financial statements for year-end 2008 continued to reflect the $106 million fraudulent tax benefit associated with the Luxembourg entities because the audit team deemed the difference between the adjustments to be immaterial.

assigned to the Weatherford engagement for a portion of the 2009 year-end audit, the audit work for Weatherford's consolidated tax provision principally fell to two tax seniors who had previously worked on the Weatherford engagement, one of whom had not yet passed the CPA exam.

41. During the fiscal year 2009 audit, Weatherford represented to Ernst & Young's tax personnel that its $101.6 million tax benefit was supported by a $290 million dividend exclusion adjustment involving a Bermuda entity. There is no evidence in the audit workpapers that the engagement team questioned this adjustment or sought supporting documentation to corroborate it. The sole support for Weatherford's 2009 dividend adjustment in the audit workpapers consisted of an oral representation that appears to have been copied from the prior year's audit workpapers verbatim. That purported oral representation does not even relate to the $290 million Bermuda adjustment, but inexplicably references $523 million in fiscal year 2009 dividend exclusions connected to Luxembourg entities and an explanation the audit team rejected on the last day of the prior-year's audit.

42. The 2009 audit workpapers and lead schedules addressing the dividend adjustment evidence no review or sign-off by either Fronckiewicz or Adams, although both signed off on an audit checklist and the final Memorandum certifying that they reviewed the work performed as a basis for their representations that Weatherford's income tax accounts were prepared in conformity with GAAP. This was contrary to Ernst & Young's policies.

43. The audit team's failure to obtain sufficient competent evidential matter for Weatherford's 2009 dividend exclusion adjustment is particularly troubling for several reasons. First, as noted above, the audit documentation does not reflect any evidence of work performed on the 2009 dividend exclusion adjustment involving Bermuda. Instead, fourth quarter 2009 tax provision audit workpapers prepared by one tax senior and reviewed by a second tax senior and an assurance manager with no prior international tax experience erroneously identify a previously rejected explanation from the prior year involving Luxembourg entities as support that a $101.6 million tax benefit "is reasonable." There is no evidence that either Fronckiewicz or Adams conducted any review of the tax workpapers associated with this issue at fiscal year-end 2009.

44. Second, the audit team failed to reconcile a $155.8 million debit in the income tax payable account, which had accumulated within Weatherford's Elimination region solely as a result of the dividend exclusion adjustments. Specifically, they failed to perform the following steps necessary to audit the income tax accounts and thus failed to uncover Weatherford's errors: (i) a reconciliation of the current income tax payable/receivable accounts; (ii) a reconciliation of the prior year income tax provisions to filed returns; (iii) an appropriately detailed ETR reconciliation; or (iv) obtaining sufficient competent evidential matter to support the plug adjustments.

45. While all Respondents should have exhibited heightened professional skepticism toward Weatherford's income tax accounting throughout the relevant period, they had an additional reason to review Weatherford's income tax accounting with such heightened due care and professional skepticism during the 2009 audit. Respondents, particularly Adams, had historically

viewed the Weatherford VP of Tax as difficult, intimidating to junior personnel, and stubborn; particularly with respect to the tax positions he took on behalf of the company. By year-end 2009, concerns regarding the VP of Tax, who was by then also a Weatherford officer, rose considerably. Adams made clear to others within Ernst & Young, including Fronckiewicz, that she distrusted Weatherford's VP of Tax and believed he was misrepresenting income tax transactions in violation of GAAP in order to improve the company's ETR and net income. However, nothing was done to increase skepticism of Weatherford's tax provision and Ernst & Young's engagement team continued to rely on oral explanations for the plug adjustments.

46. Third, PPG conducted three formal consultations directly or indirectly related to Weatherford's income tax accounting during 2009. One consultation included a significant deficiency determination involving internal control failures over the company's tax accounting that caused a $39 million out-of-period misstatement error to the consolidated tax provision. The audit team uncovered the $39 million out-of-period misstatement error on Weatherford's consolidated tax provision during the 2009 year-end audit of Weatherford. The $39 million error, which overstated Weatherford's income tax liability and decreased its net income, arose from Weatherford's failure to follow GAAP accounting for certain deferred taxes. Weatherford management concluded, and Respondents ultimately agreed, that the underlying root cause of the $39 million error did not constitute a material weakness in Weatherford's ICFR for income tax accounting, which would require disclosure. Weatherford management concluded the error stemmed from a significant deficiency in internal controls, which did not require disclosure. After consultation with PPG, Respondents concluded the error arose from Weatherford's internal control failures, including "limited oversight from the financial reporting group over the income tax process," and "a lack of depth of experience in GAAP accounting for income taxes, which limits the effectiveness of the reviews that are performed." Separate consultations included the tax and book accounting for a multi-million dollar IP migration, and a formal consultation regarding materiality and tolerable error thresholds (which impacted the work performed by the audit team on all of Weatherford's accounts, including income taxes).

47. Despite identifying these internal control deficiencies, the audit team conducted insufficient substantive testing of Weatherford's consolidated tax provision, which could have caused them to question the single largest downward driver of Weatherford's ETR for the year: the manual post-closing $290 million dividend exclusion adjustment to the company's consolidated tax provision involving an entity in Bermuda, a 0% tax jurisdiction, which was then tax effected in the Eliminations region by 35% to produce a tax benefit of $101.6 million. That improper tax benefit increased Weatherford's net income by 66% for the year.

Fiscal Year 2010 Quarterly Interim Reviews

48. The fraudulent plug adjustments and the resulting improper tax benefits recorded from 2007 through 2010 created a $461 million debit balance to Weatherford's current income tax payable, which Weatherford reclassified as an income tax receivable for reporting purposes. "Current income tax payable" is a balance sheet liability account with a credit balance comprised of taxes to be paid within a year. While income tax receivables with debit balances may arise for short periods, such as when a company is due a tax refund, the multi-year large debit balance

Weatherford recorded should have raised red flags for the audit team long before the First Restatement.

49. Weatherford's $461 million income tax receivable balance was not the product of an abnormally large anticipated tax refund. Instead, this phantom income tax receivable occurred because the current income tax payable accounts annually recorded from Weatherford's consolidated tax provision were understated by the amount of each year's fraudulent tax benefit. Over time, this disparity created a huge debit balance anomaly within Weatherford that was as high as $155.8 million at December 31, 2009, grew to $279.2 million at June 30, 2010, and continued upward to $441.6 million at December 31, 2010.[9]

50. Throughout 2010, the audit team saw Weatherford's income tax receivable balance grow without explanation by $286.8 million, from $155.8 million at the beginning of the year to $441.6 million by December 31, 2010. During the first six months of 2010, Weatherford's tax receivable balance grew by $123.4 million, to $279.2 million at June 30, 2010. Ernst & Young's interim review workpapers for the second quarter of 2010 indicated the audit team did "not have the detail of this account" and "will prove out these receivables as part of interim testing" during the pretend hard close. However, they failed to modify the review plan to include or otherwise conduct sufficient inquiries or analytical procedures related to the tax receivable as part of their interim reviews. Ernst & Young's workpapers for its 2010 interim reviews contain no evidence that even minimal review of Weatherford's income tax receivable took place despite the glaring tax receivable balance.

51. Notwithstanding the absence of audit documentation, Adams reviewed the large tax receivable balance during the second quarter of 2010 and thought that the large -- $123.4 million -- continued growth in that balance did not seem analytically possible. She discussed the receivable balance with Fronckiewicz and approached Weatherford's VP of Tax for an explanation about why the income tax receivable was so large, and why Weatherford would continue to be making such large payments. When the VP of Tax did not have a response to those questions, however, Adams did not make any additional inquiries or perform other appropriate procedures to provide a basis for communicating whether she was aware of any material departures from GAAP as it pertains to the $279.2 million income tax receivable balance during the second quarter review of Weatherford's financials. Instead, Adams indicated to Weatherford's VP of Tax that she would be expecting the company would reconcile their payable/receivable balances for the year-end audit. As a result, the audit team performed no extended procedures regarding Weatherford's income tax receivable during the third quarter either, choosing to wait until the receivable swelled to $441.6 million at year end to address the issue in February 2011. It was not until February 2011, after concluding that a material weakness in ICFR related to income tax accounting existed as of year-end, that Ernst & Young's engagement team performed additional review of Weatherford's income tax receivable balance and discovered the phantom $461 million receivable in the Eliminations region account that occurred due to the four year fraud, which, in turn, led to the First Restatement.

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[9] The year-end 2010 current income tax balance of $441,553,629 included the $461 million phantom receivable and a $20 million credit balance to "U.S. Income Tax Payable."

52. The First Restatement did not correct all of the income tax accounting errors in Weatherford's financial statements. After the First Restatement was announced in March 2011, Weatherford announced two additional restatements in February and July 2012, respectively. The two restatements resulted from multiple types of tax accounting errors that were uncovered as part of Weatherford's remediation efforts.[10] Weatherford initiated internal investigations after filing its first and second restatements. In August 2012, the company informed Ernst & Young for the first time the true reason for the $461 million error in the First Restatement; namely, that its VP of Tax and tax manager had backed into Weatherford's ETR by putting in a plug to match what they expected the estimated ETR to be for four years. Ernst & Young then immediately advised Weatherford's Audit Committee that a possible illegal act had occurred and requested an independent investigation into the matter, which was performed.

Respondents' Audits and Interim Reviews Were Not Performed in Accordance with PCAOB Standards

53. Respondents' audits of Weatherford's financial statements for fiscal years 2007, 2008, and 2009 and their interim reviews of Weatherford's financial statements during 2010 were deficient. The audit team failed to identify the material understatement of Weatherford's tax expense and the associated phantom income tax receivable, in part, because they failed to perform procedures to obtain sufficient evidence to support Weatherford's income tax accounting in accordance with PCAOB standards. In auditing Weatherford's consolidated tax provision and related income tax account balances and disclosures, the audit team failed to exercise due professional care, and professional skepticism, and they failed to obtain sufficient competent evidential matter to support a reasonable basis for an opinion regarding the financial statements. The audit team knew they were auditing a high-risk area of a high-risk, close monitoring client, yet they never insisted on, nor obtained, corroborating documentation to substantiate the abnormally large dividend exclusion adjustments made by Weatherford's VP of Tax and tax manager year after year. The audit team also never performed certain required substantive audit procedures, such as reconciliations that would have possibly identified the material errors in Weatherford's income tax receivable balances.

54. Ernst & Young issued audit reports expressing unqualified opinions in connection with its audits of Weatherford's financial statements in fiscal years 2007 through 2009. Ernst & Young's audit team, including Fronckiewicz and Adams, was aware of Weatherford's manual post-closing adjustments each year. Further, Adams failed to obtain supporting documentation to corroborate oral representations provided by Weatherford's VP of Tax and tax manager. In 2008 and 2009, Fronckiewicz and Adams missed two opportunities each year during the pretend hard close and at year end to uncover these plug adjustments. In 2010, Respondents conducted interim reviews of Weatherford's quarterly financial statements and failed to perform inquiries and analytical procedures sufficient to ascertain why Weatherford's $155.8 million income tax

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[10] The second restatement included fraudulent conduct involving Weatherford's failure to accrue for $84 million in withholding taxes prior to 2012. Specifically, before Weatherford filed its Form 10-Q for the period ending September 20, 2011, Weatherford and the VP of Tax knew, or were reckless in not knowing, that their failure to accrue for withholding taxes on intercompany transactions was a deviation from GAAP that would cause Weatherford's statements to be materially misstated.

receivable, which was already growing significantly by the end of 2009, increased by an additional $285.8 million over a single year.

Ernst & Young's Recognition that its Auditing of Income Tax Accounting Was an Area Requiring Significant Improvement

55. Beginning as early as 2004 and continuing throughout the relevant period, the national office of Ernst & Young annually informed its personnel that, based on external and internal inspection results, its auditing of income tax accounting was a firm-wide "specific focus" as a top area requiring significant improvement. In fact, between 2006 and 2009, Ernst & Young issued at least six memos, including three in November 2009 alone, to its personnel addressing deficiencies in its audits of income tax accounting. Deficiencies in this area occurring on "more than an infrequent basis" were typically highlighted, often in bold. Ernst & Young consistently stressed the following issues throughout its memos:

- Ineffective supervision and review by assurance and tax professionals, especially detailed and second-level review by assurance professionals;
- Inadequate exercise of due professional care and professional skepticism; and
- Insufficient audit documentation, including repeated observations that tax workpapers appeared to be carried forward from year to year and failed to include appropriate analyses and supporting documentation to support the auditors' conclusions.

56. Ernst & Young failed to remediate longstanding failures in the audits of income tax accounting. Although Ernst & Young enhanced its policies and procedures in 2004, including adding a tax supplement and audit procedures checklist with additional training, it continued to observe issues with multiple engagement teams' auditing of income tax accounting on an annual basis. Ernst & Young's yearly "observations" of these issues and the firm's reminders to "necessitate a heightened level of professional skepticism and executive involvement on each engagement" were insufficient to change behavior adequately during the relevant period. In fact, the very failings that Ernst & Young observed on a number of engagements over the auditing of income taxes were the failures that Fronckiewicz, Adams, and their engagement team were making year after year on the Weatherford audits. Despite Ernst & Young's recognition of these problems, the firm did not develop specific training to effectively assist its assurance and tax professionals in their review and documentation in the tax workpapers until 2010, at the earliest.

Staffing, Training, and Supervision

57. Ernst & Young's staffing, training, and supervision of engagement personnel on the 2007, 2008, and 2009 Weatherford audits were insufficient for a client with the complexity and risk attributable to this company. First, Ernst & Young consistently staffed tax personnel on the 2007, 2008, and 2009 Weatherford audits at levels significantly beyond their capabilities. By doing so, it also left the Weatherford audit significantly understaffed compared to prior years. Ernst & Young's tax teams below the partner level were similarly inexperienced in 2008 and 2009.

58. Second, Ernst & Young's tax team on the Weatherford audit lacked the necessary training and proficiency to perform audit procedures to determine conformance with professional guidance

under GAAP related to tax provisions. Key tax team personnel did not receive appropriate training on due professional care and skepticism until 2009, at the earliest. On the Weatherford audits for 2007, 2008, and 2009, tax professionals lacking appropriate audit training and experience were required to perform consolidated tax provision audit work that should have been conducted by Ernst & Young assurance and tax personnel under the ultimate supervision of the assurance partners.

59. Staffing and training issues on the Weatherford audits were not limited to tax personnel. There was also a shortage of qualified assurance managers in Ernst & Young's Houston office and, because of Weatherford's reputation as a "very adversarial" client, staffing the Weatherford audit was a perennial issue. Ernst & Young managers resisted working on the Weatherford audit and threatened to quit if assigned to the engagement. Senior management in Ernst & Young's Southwest Region were aware of managers' reluctance to work on the Weatherford audit. They called Weatherford "one of the most challenging and demanding clients" in the region and noted:

- "[T]he Weatherford . . . engagement has historically been difficult and hard on our people, frequently resulting in high turnover and generalized dissatisfaction within our team."
- "Weatherford is an offshore company with a complex tax structure, and a tax accounting process that historically had had issues."

60. Despite these well-known concerns, Ernst & Young regional senior management denied Fronckiewicz's request for an assurance manager well suited to a difficult, public company like Weatherford before the start of the 2009 fiscal year audit. Ernst & Young assigned an assurance manager who had limited previous public company experience and had little training or experience in complex international tax accounting. Notwithstanding that lack of experience, Fronckiewicz assigned this manager the task of reviewing the income tax workpapers during the 2009 audit.

61. On March 29, 2011, shortly after the filing of the First Restatement, Ernst & Young's Quality Implementation Leader for the Southwest Region drafted an engagement quality occurrence report that identified for PPG the following contributing factors as among the causes of Weatherford's March 8, 2011 restatement: (1) inconsistent and, at times, inadequate tax staffing; and (2) performance issues regarding the coordination of work between the tax and assurance teams on the engagement. This draft report, which was not finalized, also found that there was a lack of appropriate supervision and review over the audits of Weatherford's income tax accounting during the 2007, 2008, and 2009 audits.

62. For example, Fronckiewicz failed to consistently adhere to Ernst & Young policies and procedures requiring a detailed and second-level review of income tax accounting workpapers by sufficiently experienced assurance professionals. When Fronckiewicz attempted to conduct that review himself, he performed only a cursory review and failed to exercise the due professional care and skepticism required under the circumstances. He also failed to perform adequate reviews to determine that others on the engagement team, particularly Adams, exercised the due professional care and skepticism warranted by PCAOB standards. Adams supervised Ernst & Young tax professionals that she knew were inexperienced and untrained and did not seek additional training for these individuals. Adams and Fronckiewicz also knew that the

Weatherford audit required their tax staff to perform consolidated tax provision audit work in a difficult, high-pressure environment under severe time constraints. Adams and Fronckiewicz also engaged in unreasonable conduct by requiring their junior and inexperienced tax staff to audit tax accounting that should have been conducted by assurance and tax personnel under the ultimate supervision of the assurance partners.

63. The staffing, training, and supervision on the Weatherford engagement identified above were the responsibility of Fronckiewicz, Adams, and Ernst & Young. At the time, Ernst & Young had no mechanism to ensure that the highest-risk areas of its highest risk clients had a team composed of assurance and tax professionals that was properly selected, trained and supervised. Ernst & Young did not sufficiently monitor partner and manager workloads based on client complexity and difficulty. Similarly, Ernst & Young did not adequately screen the selection and training of tax personnel to ensure appropriate staffing on complex, difficult, or high-risk audits during the relevant period. Until 2011, Ernst & Young also failed to conduct mandatory training for tax managers and partners involving the coordination and execution of the audit of income tax accounts.

VIOLATIONS

Rule 102(e) and Section 4C of the Exchange Act

64. Respondents' 2007, 2008, and 2009 audits and the 2010 interim reviews of Weatherford's financial statements were deficient and not performed in accordance with PCAOB Standards.[11] Rule 102(e)(1)(ii) of the Commission's Rules of Practice and Section 4C of the Exchange Act authorize the Commission to censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to accountants who are found to have engaged in improper professional conduct. Under Rule 102(e)(1)(iv), the term "improper professional conduct" includes two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in violation of professional standards in circumstances in which heightened scrutiny is warranted: or (2) repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.

65. As set forth above, Respondents knew, or should have known, of Weatherford's income tax accounting errors prior to February 2011. Ernst & Young engagement personnel did not understand the basis for the dividend exclusion adjustment each year and failed to seek sufficient competent evidential matter to discern the purpose, nature, and extent of the dividend exclusion adjustments and the related phantom income tax receivable on the financial statements. Instead, oral representations by Weatherford's tax manager were the sole basis for Ernst & Young's conclusions that the dividend exclusion adjustments were reasonable. The audit team failed to conduct procedures necessary for obtaining sufficient evidence for Weatherford's income tax accounting. For example, the audit team did not reconcile the current income tax payable/receivable accounts even though there was an unexpected, unusual, and unexplainable large debit balance in the income tax payable account. The audit team failed to take appropriate

[11] References to auditing standards in this Order are to PCAOB Standards in effect at the time the audit work was performed.

action in response to red flags regarding Weatherford's evolving and inconsistent reasoning behind its dividend exclusion adjustments. Ernst & Young engagement personnel, including Fronckiewicz and Adams, knew, or should have known, that the conclusions reached in the workpapers did not make sense and were unsupported. These repeated failures, taken together, evidence a repeated disregard of some of the most important auditing principles. That disregard is especially troubling because these failures occurred over multiple years in an area – income tax accounting – the firm had already identified as a significant issue, and while Respondents audited the highest-risk area of one of its largest, high-risk, close monitoring clients. Ernst & Young's review of the audits shortly after the filing of the First Restatement confirmed that the Weatherford audits suffered from a lack of appropriate supervision and review, inadequate and insufficient tax staffing, and unsatisfactory coordination between tax and assurance personnel on the engagement.

66. Had Respondents conducted the Weatherford audits in accordance with PCAOB standards, Respondents could have exposed and put an end to the company's fraud. Instead, Ernst & Young issued audit reports in 2007, 2008, and 2009 containing unqualified opinions that were filed with Weatherford's financial statements in the Form 10-Ks. In those reports, Ernst & Young inaccurately stated the audit had been conducted in accordance with PCAOB Standards and that Weatherford's financial statements presented fairly, in all material respects, the company's position and results in conformity with GAAP.

Failure to exercise due professional care and an attitude of professional skepticism (AU § 230)

67. PCAOB standards require auditors to exercise due professional care in the planning and performance of the audit and the preparation of the report. (AU § 230.01) An auditor must exercise professional skepticism, which is an attitude that includes "a questioning mind and a critical assessment of audit evidence." (AU § 230.07) "Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process." (AU § 230.08) In exercising professional skepticism, an auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest. (AU § 230.09, *see also* AU § 316.13) Whenever the auditor has concluded that there is significant risk of material misstatement of the financial statements, the auditor should consider this conclusion in determining the nature, timing, or extent of procedures. "Higher risk may cause the auditor to expand the extent of procedures applied, apply procedures closer to or as of year end, particularly in critical audit areas, or modify the nature of procedures to obtain more persuasive evidence." (AU § 312.17) In addition, PCAOB standards require auditors to exercise due professional care in the "application of field work and reporting standards to a review of interim financial information." (AU § 722.01)

68. As a result of Respondents' conduct described above, Respondents failed to exercise due professional care and an attitude of professional skepticism in its 2007, 2008, and 2009 audits and 2010 interim reviews of Weatherford's financials.

Failure to obtain sufficient competent evidential matter concerning the dividend exclusion adjustment and phantom income tax receivable balance (AU §§ 326, 333)

69. PCAOB standards require auditors to obtain sufficient competent evidential matter to afford a reasonable basis for an opinion with respect to the financial statements under audit. (AU § 326.01) To be "competent," evidence, regardless of its form, "must be both valid and relevant." (AU § 326.21) Auditors must be thorough in their search for evidential matter and unbiased in their evaluation and consider relevant evidential matter regardless of whether it corroborates or contradicts assertions in the financial statements. (AU § 326.25)

70. PCAOB standards also require an auditor to obtain sufficient competent evidential matter concerning the assertions in an issuer's financial statements, and state that an auditor's substantive procedures should include examining material adjustments made during the course of preparing the financial statements. (AU § 326.19)

71. PCAOB standards also provide that management representations "are not a substitute for the application of th[e] auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit," that "the auditor obtains written representations from management to complement other auditing procedures," and that "[i]n exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest." (AU §§ 333.02, 333.03, *see also* AU § 230.09)

72. As a result of the conduct described above, Respondents failed to obtain sufficient competent evidential matter concerning the assertions in Weatherford's financial statements with regard to its consolidated tax provisions, despite the clear need for heightened scrutiny presented by the Weatherford audits. Instead, the audit team relied on the unverified oral statements of Weatherford management, even though Weatherford provided explanations that were imprecise, lacked sufficient detail, and were inconsistent with other audit evidence. Respondents also did not properly reconcile the tax provision and the income tax accounting balances during the 2007, 2008, and 2009 audits of Weatherford's financials.

Failure to properly supervise the engagement team (AU § 311)

73. PCAOB standards note that audit "assistants," including firm personnel other than the auditor with final responsibility for the audit, are to be "properly supervised." (AU §§ 311.01, 311.02, *see also* AU § 150.02) Those standards further require that assistants be informed of their responsibilities and the objectives of procedures assigned to them, and that the work of assistants be reviewed to determine whether it was adequately performed. (AU §§ 311.12, 311.13)

74. As a result of the conduct described above, Respondents failed to properly supervise the engagement team on its 2007, 2008, and 2009 Weatherford engagements.

Failure related to adequate training, competency, and proficiency
(AU §§ 210.01, 161, QC 20 and 40)

75. PCAOB standards require that the audit be performed by "a person or persons having adequate technical training and proficiency as an auditor." (AU § 210.01) PCAOB quality control standards require an auditing firm to establish policies and procedures which provide the firm with reasonable assurance that (a) those hired possess the appropriate characteristics to enable them to perform competently and (b) work is assigned to personnel having the degree of technical training and proficiency required in the circumstances. (QC 20.13 and QC 40.02) PCAOB standards also require that a firm of independent auditors has a responsibility to adopt a system of quality control, including policies and procedures to provide reasonable assurance that its personnel comply with PCAOB standards in its audit engagements. (AU § 161)

76. As a result of the conduct described above, Respondents failed to meet the standard that required adequate training, competency, and proficiency in staffing the 2007, 2008, and 2009 Weatherford audits.

Failure to Make Additional Inquiries or Perform Additional Procedures
In the Course of Reviewing Interim Financial Information (AU § 722)

77. PCAOB standards provide:

> A review consists principally of performing analytical procedures and making inquiries of persons responsible for financial and accounting matters, and does not contemplate (a) tests of accounting records through inspection, observation, or confirmation; (b) tests of controls to evaluate their effectiveness; (c) obtaining corroborating evidence in response to inquiries; or (d) performing certain other procedures ordinarily performed in an audit. A review may bring to the accountant's attention significant matters affecting the interim financial information, but it does not provide assurance that the accountant will become aware of all significant matters that would be identified in an audit.
>
> (AU 722.07)
>
> If, in performing a review of interim financial information, the accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles in all material respects, the accountant should make additional inquiries or perform other procedures that the accountant considers appropriate to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information. For example, if the accountant's interim review procedures lead him or her to question whether a significant sales transaction is recorded in conformity with generally accepted accounting principles, the accountant should perform additional procedures, such as discussing the terms of the transaction with senior marketing and accounting personnel, reading the sales contract, or both, to resolve his or her questions.
>
> (AU § 722.22)

78. As a result of Respondents' conduct described above, Respondents violated AU § 722 when they failed to make any additional inquiries or perform other appropriate procedures to provide a basis for communicating whether they were aware of any material departures from GAAP during the course of their second and third quarter 2010 review of Weatherford's income tax receivable balance.

Failure to Prepare Required Documentation (AS 3)

79. PCAOB standards mandate that an auditor's documentation contain sufficient information to enable an experienced auditor, having no previous connection to the engagement to: (1) understand the nature, timing, extent and results of the procedures performed, evidence obtained and conclusions reached; and (2) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review. (AS 3.6) Auditors are also required to document significant findings and issues, including the actions taken to address them and the basis for the conclusions reached. (AS 3.12) Because it is the written record supporting the representations in the auditor's report, audit documentation should, among other things, "[s]upport the basis for the auditor's conclusions concerning every relevant financial statement assertion, and … [d]emonstrate that the underlying accounting records agreed or reconciled with the financial statements." (AS 3.5)

80. As a result of Respondents' conduct described above, Respondents failed to prepare and retain required audit documentation in sufficient detail to provide a clear understanding of its purpose, source, and conclusions reached on its 2007, 2008, and 2009 Weatherford engagements.

81. The workpapers were not sufficient to enable a qualified professional who reviews them to understand the work that Respondents performed, the analysis, or the conclusions reached. Ernst & Young engagement personnel, including Fronckiewicz and Adams, could not explain what the audit team had done, even after looking over workpapers that they had prepared or reviewed themselves.

Findings

82. As a result of the conduct described above, the Commission finds that Respondents engaged in improper professional conduct within the meaning of Sections 4C(a)(2) and 4C(b)(2) of the Exchange Act and Rules 102(e)(1)(ii) and 102(e)(1)(iv)(B) of the Commission's Rules of Practice. Respondents' conduct during the 2007, 2008, and 2009 audits of Weatherford and during the 2010 quarterly reviews of the company's income tax receivable balance involved repeated instances of unreasonable conduct, each resulting in violations of PCAOB standards and indicated a lack of competence, and Respondents' conduct also satisfies the standard of highly unreasonable conduct resulting in violations of PCAOB standards in circumstances in which heightened scrutiny was warranted.

RESPONDENTS WERE A CAUSE OF WEATHERFORD'S VIOLATIONS
OF EXCHANGE ACT SECTION 13(a) AND RELEVANT RULES THEREUNDER

83. Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder require every issuer of securities registered pursuant to Section 12 of the Exchange Act to file with the Commission information, documents, and annual and quarterly reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading. The obligation to file such reports embodies the requirement that they be true and correct. *See*, *e.g*., *SEC v. Savoy Indus., Inc.*, 587 F.2d 1149, 1165 (D.C. Cir. 1978).

84. Weatherford violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder by including in numerous of its periodic filings and submissions financial statements from fiscal year 2007 through the third quarter of 2010 that were materially false and misleading. For each of those years, Ernst & Young issued audit reports containing unqualified opinions stating that Ernst & Young conducted an audit of the company's annual financial statements in accordance with PCAOB standards, and that Weatherford's financial statements were presented fairly, in all material respects, in conformity with GAAP. Ernst & Young consented to the inclusion of these audit reports in Weatherford's Forms 10-K for fiscal years 2007 through 2009. However, Ernst & Young's audit reports were inaccurate because Respondents failed to conduct these audits in accordance with PCAOB standards. Respondents' failure to comply with PCAOB standards during 2007 through 2009 was a cause of Weatherford's violations.

85. As a result of the conduct described above, Respondents were a cause of Weatherford's issuance of materially false and misleading financial statements in its periodic filings and submissions from 2007 through the third quarter of 2010 and, therefore, were a cause of Weatherford's violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

REMEDIAL ACTIONS

After the filing of the First Restatement, Ernst & Young took a series of remedial steps intended to enhance its system of quality controls as they related to: (a) identification and assessment of, and response to, high-risk audits; (b) the staffing, training and oversight of assurance and tax professionals assigned to engagements; (c) the coordination between assurance and tax personnel; (d) guidance for the performance of audit and review procedures relating to income tax accounting; and (e) internal quality reviews of audits on a pre-issuance and post-issuance basis. These steps included the expansion of PPG, the development and expansion of the Tax Accounting and Risk Advisory Services Network within the Tax Practice, the development and expansion of a Quality Network within the Assurance Practice, revised programs for the performance of audit procedures relating to tax provisions, improved engagement staffing tools, an enhanced Engagement Quality Review process, and expanded training, including in the area of fraud detection.

In determining to accept Ernst & Young's Offer, the Commission considered remedial acts undertaken by Ernst & Young and significant cooperation afforded the Commission staff.

UNDERTAKINGS

Ernst & Young undertakes to complete the following actions:

1. Notification. Ernst & Young shall provide all audit personnel a copy of this Order within ten (10) business days after entry of the Order.

2. Ernst & Young Policies Report and Validation Plan.

Within thirty (30) days after the entry of this Order, Ernst & Young shall submit to the Commission staff a report (the "Ernst & Young Policies Report") describing in reasonable detail its quality controls set forth in its audit manual and audit- and quality-related guidance and policies, relating to its policies and procedures set forth therein for Ernst & Young's quality management system and its audit and interim review procedures regarding the subject areas specified below (hereinafter referred to as "Specified Ernst & Young Policies"). The Ernst & Young Policies Report shall also describe in reasonable detail Ernst & Young's methodology and work plan to review, test, and assess whether the Specified Ernst & Young Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules (the "Validation Plan"). The Commission staff may make reasonable requests for further evidence of the quality controls and validation plan set forth in the Ernst & Young Policies Report and Validation Plan, and Ernst & Young agrees to provide such evidence. The Validation Plan, not unacceptable to the Commission staff, shall include detailed review, testing, and assessment of the following Specified Ernst & Young Policies as they relate to high risk clients, including those clients designated as high risk because of their accounting for income taxes, that are subject to expanded monitoring procedures ("Close Monitoring Clients"):

(a) client continuance practices, including, client designation, acceptance, retention, risk identification, and assessment of identified risk areas of such clients;

(b) audit and interim review procedures for addressing identified risk areas; the coordination of relative responsibilities for audit and interim review procedures between Assurance and Tax personnel; and Ernst & Young's tax provision supplement and related guidance materials and practice aids;

(c) staffing and selection of audit personnel, workload reviews for audit personnel at or above senior manager; and obtaining reasonable assurance that coordinating (*i.e.*, signing) partners, Assurance and Tax reviewers and supervisors have the appropriate experience and training to respond to identified risk areas for the audit;

(d) professional education in the following areas: due professional care, professional skepticism, detecting and reporting material misstatements caused by fraud, obtaining sufficient appropriate audit evidence, audit documentation, substantive and controls procedures over financial reporting for income taxes, tax training for Assurance personnel, and assurance training for Tax personnel; and

(e) regional and national office participation in, or supervision of, audit and interim review engagements, including responding to identified risk areas, implementation and monitoring of engagement milestones, quality network coaching, consultations with regional or national office technical oversight professionals, root cause analysis, engagement quality reviews, quality occurrence reviews, and other pre-issuance and post-issuance engagement reviews.

3. Initial Validation Report and Certification.

   a. Initial Validation Report. Within two hundred seventy (270) days after the issuance of the Ernst & Young Policies Report and Validation Plan, Ernst & Young shall submit to the Commission staff a written report setting forth a complete description of the testing, analysis, and results of its Validation Plan ("Initial Validation Report").

   b. Initial Validation Certification. The Initial Validation Report shall include a certification executed by: (a) Americas Vice Chair of Professional Practice; (b) Americas Vice Chair of Assurance; and (c) Americas Vice Chair of Tax (collectively "Ernst & Young's Americas Vice Chairs") that the Specified Ernst & Young Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules, and if deficiencies in the design or operation of the Specified Ernst & Young Policies are identified, shall report such deficiencies to the Commission staff ("Initial Validation Certification"). The Commission staff may make reasonable requests for further evidence of compliance, including the testing results, and Ernst & Young agrees to provide such evidence. If significant deficiencies are identified, Ernst & Young shall report such deficiencies to the Commission staff and state that it cannot certify compliance.

4. Second Validation Plan. Within sixty (60) days after the issuance of the Initial Validation Report, Ernst & Young shall submit to the Commission staff an updated validation plan not unacceptable to the Commission staff: (a) to review, test, and assess whether the Specified Ernst & Young Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules; and (b) a remediation plan that contains a description of any deficiencies identified, and a schedule of remedial measures to correct significant deficiencies (collectively, the "Second Validation Plan").

5. Second Validation Report and Certification.

   a. Second Validation Report. Within one (1) year after the issuance of the Initial Validation Report, Ernst & Young shall submit to the Commission staff a written report setting forth a complete description of the testing, analysis, and results of its Second Validation Plan ("Second Validation Report").

b. Second Validation Certification. The Second Validation Report shall include a certification executed by the Ernst & Young's Americas Vice Chairs that the Specified Ernst & Young Policies are designed to provide reasonable assurance of compliance with Commission regulations and PCAOB standards and rules, and if deficiencies in the design or operation of the Specified Ernst & Young Policies are identified, shall report such deficiencies to the Commission staff ("Second Validation Certification"). The Commission staff may make reasonable requests for further evidence of compliance, including the testing results, and Ernst & Young agrees to provide such evidence. If significant deficiencies are identified, Ernst & Young shall report such deficiencies to Commission staff and state that it cannot certify compliance.

6. Subsequent Plans, Reports, and Certifications. If Ernst & Young identifies significant deficiencies in the design or operation of the Specified Ernst & Young Policies in the Second Validation Report, Ernst & Young shall repeat the undertakings described in Paragraphs 4 and 5 annually until such time that no significant deficiencies are identified. At that time, Ernst & Young shall issue a Final Validation Report that includes a certification executed by Ernst & Young's United States Chairman that Ernst & Young executed the Final Validation Plan and that the Specified Ernst & Young Policies are operating as designed and provide reasonable assurance of compliance with all Commission regulations and PCAOB standards and rules ("Final Validation Certification").

7. Internal Team Leader. Ernst & Young shall appoint an Internal Team Leader ("ITL") knowledgeable and experienced in U.S. GAAP, Commission regulations, and PCAOB standards and rules not unacceptable to Commission staff to oversee these undertakings. The ITL shall continue in this role until all undertakings have been deemed satisfied by the Commission staff. The ITL shall have overall responsibility for the planning and scope of all Validation Plans. The ITL also shall have overall responsibility for developing the methodology for the selection of Ernst & Young controls subject to review not unacceptable to Commission staff. The methodology used to select Ernst & Young controls subject to review shall be designed to include the operation of these controls on the audits of SEC Registrant clients designated as Close Monitoring Clients, including those clients designated as Close Monitoring Clients because of their accounting for income taxes. The ITL shall also oversee testing to determine whether the controls result in SEC Registrant clients receiving the appropriate risk designations, including designation as Close Monitoring Clients, as appropriate. The ITL shall engage Professional Practice personnel, Quality Implementation Leaders, Control & Methodology Leaders, and other Ernst & Young professionals with appropriate experience, and outside consultants or third-party support, if needed, to develop the Validation Plans and to perform all reviews, testing, and preparation of all reports described in these undertakings. The ITL shall oversee the preparation of all reports submitted to the Commission staff. Ernst & Young shall provide the ITL with staffing and other resources as necessary to accomplish these undertakings in a timely manner. Ernst

& Young shall not impose any planning or limitations on the ITL in the execution of his or her duties and shall not interfere or attempt to influence the ITL during the course of these undertakings.

8. Submissions to the Commission Staff. The Commission staff may request access to documents, internal review and PCAOB inspection materials, training materials, Ernst & Young personnel, and/or meetings with Ernst & Young, within thirty (30) days of receipt of any Report, Plan, or Certification. Within fifteen (15) days of receipt of the above requested information or meetings, the Commission staff may submit to Ernst & Young any questions regarding the Reports, Plans, or Certifications, and Ernst & Young agrees to address all such questions within fifteen (15) days of receipt. Unless otherwise directed by the Commission staff, all Reports, Plans, Certifications, and other documents required to be provided to the Commission staff shall be sent to James Valentino, Senior Counsel, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-5631, or such other address as the Commission may provide, with a copy to the Office of Chief Counsel of the Enforcement Division (the "Designees"). Ernst & Young will make all Reports, Plans, and Certifications available to PCAOB staff upon request. All such Reports, Plans, Certifications, and other documents provided to the Commission staff pursuant to these undertakings likely will include proprietary, financial, confidential, and competitive business information. Public disclosure of the reports could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the reports and the contents thereof are intended to remain and shall remain non-public, except (a) pursuant to court order, (b) as agreed by the parties in writing, (c) to the extent that the Commission staff determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (d) is otherwise required by law.

9. Unless otherwise notified by the Division of Enforcement, these undertakings are deemed satisfied upon the later of: (a) two years after the entry of this Order; or (b) written confirmation by the Designees that they have received a Final Validation Certification free from Significant Deficiencies.

10. Recordkeeping. Ernst & Young shall preserve and retain all documentation regarding all certifications and reports for seven (7) years and will make it available to the staffs of the Commission or the PCAOB upon request.

11. Deadlines. For good cause shown, the Commission staff may in its sole discretion extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, unless otherwise specified. If the last calendar day falls on a weekend or a federal holiday, the next business day shall be considered to be the last day.

12. Petition to Reopen Matter. In determining whether to accept Ernst & Young's Offer, the Commission has considered these undertakings. Ernst & Young agrees that if

the Division of Enforcement believes that Ernst & Young has not satisfied these undertakings, it may petition the Commission to reopen the matter to determine whether additional sanctions are appropriate.

13. Ongoing Cooperation. Ernst & Young (including its partners, principals, officers, agents, and employees) shall cooperate fully with the Commission with respect to this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party and subject to compliance with applicable law. Ernst & Young agrees that such cooperation shall include, but is not limited to:

   a. Production of Information. At the Commission's request, upon reasonable notice, and without subpoena, Ernst & Young (including its partners, principals, officers, agents, and employees) shall truthfully and completely disclose all information requested by the Commission staff in connection with the Commission's investigation, litigation or other related proceedings, except with respect to information related to clients other than Weatherford, which information shall be produced in response to subpoena or other appropriate legal process;

   b. Production of Documents. At the Commission's request, upon reasonable notice, and without subpoena, Ernst & Young (including its partners, principals, officers, agents, and employees) shall provide any document, record or other tangible evidence requested by the Commission staff in connection with the Commission's investigation, litigation or other related proceedings, except with respect to documents related to clients other than Weatherford, which information shall be produced in response to subpoena or other appropriate legal process; and

   c. Production of Cooperative Personnel. At the Commission's request, upon reasonable notice, and without subpoena, Ernst & Young (including its partners, principals, officers, agents, and employees) shall secure the attendance and truthful statements, deposition, or testimony of any Ernst & Young partner, principal, officer, agent, or employee, excluding any person who is a party to any related litigated judicial or administrative proceeding, at any meeting, interview, testimony, deposition, trial, or other legal proceeding.

      The foregoing obligations are subject to Ernst & Young's reservation of rights:

      (i) to claim that documents or information requested is subject to attorney-client privilege or attorney-work-product protection; and
      (ii) to seek entry of a confidentiality order as to sensitive business documents or information, sensitive personnel documents or information, or confidential information pertaining to clients other than Weatherford.

   d. Service and Personal Jurisdiction Consents. Ernst & Young further agrees that, with respect to this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, it will: (i) accept service by email, mail or facsimile transmission of notices,

requests, or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by the Commission staff ("Commission Service"); (ii) appoint Ernst & Young's undersigned attorney as agent to receive Commission Service; (iii) with respect to Commission Service, waive the territorial limits upon service contained in Rule 45 for the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Ernst & Young's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (iv) consent to personal jurisdiction over Ernst & Young in any United States District Court for purposes of enforcing any Commission Service.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED, effectively immediately, that:

A. Pursuant to Section 21C of the Exchange Act, Ernst & Young shall cease and desist from committing or causing any violations and any future violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder.

B. Ernst & Young is censured.

C. Fronckiewicz shall cease and desist from committing or causing any violations and any future violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder.

D. Fronckiewicz is denied the privilege of appearing or practicing before the Commission as an accountant.

E. After two years from the date of this Order, Fronckiewicz may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

   1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Fronckiewicz's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

   2. an independent accountant. Such an application must satisfy the Commission that:

(a) Fronckiewicz, or the public accounting firm with which he/she is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

(b) Fronckiewicz, or the registered public accounting firm with which he is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the respondent's or the firm's quality control system that would indicate that the respondent will not receive appropriate supervision;

(c) Fronckiewicz has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

(d) Fronckiewicz acknowledges his responsibility, as long as Fronckiewicz appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

F. The Commission will consider an application by Fronckiewicz to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Fronckiewicz's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

G. Adams shall cease and desist from committing or causing any violations and any future violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder.

H. Adams is denied the privilege of appearing or practicing before the Commission as an accountant.

I. After one year from the date of this Order, Adams may request that the Commission consider her reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Adams'

work in her practice before the Commission will be reviewed either by the independent audit committee of the public company for which she works or in some other acceptable manner, as long as she practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

   (a) Adams, or the public accounting firm with which she is associated, is registered with the Public Company Accounting Oversight Board ("Board") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

   (b) Adams, or the registered public accounting firm with which she is associated, has been inspected by the Board and that inspection did not identify any criticisms of or potential defects in the respondent's or the firm's quality control system that would indicate that the respondent will not receive appropriate supervision;

   (c) Adams has resolved all disciplinary issues with the Board, and has complied with all terms and conditions of any sanctions imposed by the Board (other than reinstatement by the Commission); and

   (d) Adams acknowledges her responsibility, as long as Adams appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the Board, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

J. The Commission will consider an application by Adams to resume appearing or practicing before the Commission provided that her state CPA license is current and she has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Adams' character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

K. Ernst & Young shall, within twenty-one (21) days of the entry of this Order, pay disgorgement in the amount of $9,000,000 and prejudgment interest of $1,840,107 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

L. Ernst & Young shall, within twenty-one (21) days of the entry of this Order, pay a civil money penalty of $1,000,000 to the Securities and Exchange Commission. If

timely payment is not made additional interest shall accrue pursuant to 31 U.S.C. § 3717.

M. Payment ordered in Paragraphs K. and L. above must be made in one of the following ways:

(1) Ernst & Young may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Ernst & Young may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Ernst & Young may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Ernst & Young as a Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order must be simultaneously sent to Tracy L. Price, Assistant Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549-5631.

N. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, prejudgment interest and penalties referenced in Paragraphs K. and L. above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Ernst & Young agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Ernst & Young's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Ernst & Young agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding.

For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Ernst & Young by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

O. Ernst & Young shall comply with the undertakings enumerated in Section III. above.

By the Commission.

Brent J. Fields
Secretary