

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 87052 / September 23, 2019

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4084 / September 23, 2019

ADMINISTRATIVE PROCEEDING
File No. 3-19490

In the Matter of

**PRICEWATERHOUSECOOPERS
LLP,**

Respondent.

**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**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against PricewaterhouseCoopers LLP (“PwC” or “Respondent”) pursuant to Sections 4C¹ and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.²

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 issued thereunder.

² Rule 102(e)(1)(ii) provides, in pertinent part, that:

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings 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 it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this 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”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds³ that:

Summary

1. This matter involves improper professional conduct by PwC, a public accounting firm, from 2013 through 2016, in connection with nineteen engagements for fifteen SEC-registrant issuers. For one audit client, Issuer A, PwC violated the auditor independence rules of the Commission and the Public Company Accounting Oversight Board (“PCAOB”) by performing prohibited non-audit services, including exercising decision-making authority in the design and implementation of software relating to the company’s financial reporting and engaging in management functions for the company during the 2014 audit and professional engagement period.

2. In addition, in connection with performing non-audit services for these fifteen SEC-registrant audit clients, PwC violated PCAOB Rule 3525, which requires an auditor to describe in writing to the audit committee the scope of the work, discuss with the audit committee the potential effects of the work on independence, and document the substance of the independence discussion. PwC failed to comply with the requirements of Rule 3525 and, on several engagements, PwC mischaracterized non-audit services as audit work, even though the services involved financial software systems that were planned to be implemented in a subsequent audit period and providing feedback to management on those systems—areas outside the realm of audit work. PwC’s failure to comply with Rule 3525 prevented the audit committees of numerous issuers from evaluating the potential effects of the non-audit services on

The Commission may... 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.

³ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

auditor independence, including whether the services could cause PwC to lack independence. This resulted in PwC being engaged to provide non-audit services that were improperly characterized to the audit committees of numerous issuers as audit services.

3. PwC engaged in the improper professional conduct for each of these clients when those clients were subject to PCAOB audits and reviews by PwC. PwC's violations were, in part, the result of breakdowns in its system of quality control to provide reasonable assurance that PwC maintained independence. In particular, in operating its system of quality controls related to auditor independence as described in the instances discussed below, PwC did not: 1) adequately evaluate the nature and scope of proposed non-audit service engagements for permissibility; 2) properly characterize work as audit or non-audit services; 3) review and monitor non-audit work being performed for audit clients to confirm the services were permissible; and 4) properly describe to audit committees of SEC-registrant clients the nature of the audit and non-audit services to be provided.

4. PwC represented that it was "independent" in an audit report issued on the 2014 financial statements for Issuer A, which was included or incorporated by reference in public filings with the Commission. By doing so, PwC violated Rule 2-02(b) of Regulation S-X and caused Issuer A to violate Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. For Issuer A and the other fourteen SEC-registrant audit clients, PwC's acts and omissions also constituted improper professional conduct pursuant to Section 4C of the Exchange Act and Rule 102(e) of the Commission's Rules of Practice.

Respondent

5. **PricewaterhouseCoopers LLP ("PwC")** is an audit firm headquartered in New York, New York. Since 2004, PwC has been registered with the PCAOB, pursuant to the Sarbanes-Oxley Act of 2002, to prepare and issue audit reports. During the relevant period, PwC was the independent accountant for Issuer A and the other fourteen SEC-registrant issuers.

Other Relevant Entity and Individual

6. **Issuer A** is a multi-national technology company with substantial operations in the United States, and which trades on the Nasdaq Stock Market. During the relevant period, Issuer A had a reporting obligation under Section 13(a) of the Exchange Act.

7. **Brandon Sprankle ("Sprankle")**, age 42, is a resident of San Jose, California, and has been a partner of PwC from July 1, 2014 to the present. Sprankle is a Certified Public Accountant, licensed in California, Pennsylvania, and Virginia.

Facts

Independence Violations from Providing Prohibited Non-Audit Services

8. Under the Commission's auditor independence rules, external accountants are required to be independent—in fact and in appearance—of their audit clients. The Commission's auditor independence rules set forth a general standard of independence in Rule 2-

01(b) of Regulation S-X which, among other things, states that, in determining whether an accountant is independent, the Commission will consider “all relevant circumstances, including all relationships between the accountant and the audit client . . .” Rule 2-01(c) of Regulation S-X then sets forth a non-exclusive list of circumstances, including certain relationships, that are inconsistent with the general standard in Rule 2-01(b), including where the auditors provide certain specified non-audit services to their audit clients. Subject to certain enumerated exceptions, independent auditors are prohibited from engaging in the design or implementation of systems that are significant to the audit client’s financial statements or other financial information systems taken as a whole, to perform any internal audit service related to the internal control over financial reporting, or to perform management functions for audit clients. Set forth below is a description of the non-audit services PwC provided for Issuer A, which included the provision of prohibited services that violated the independence rules.

9. In 2014, PwC performed non-audit services for Issuer A concerning Governance Risk and Compliance (“GRC”) software. GRC systems are used by companies to coordinate and to monitor controls over financial reporting, including employee access to critical financial functions. Issuer A intended to use the GRC software to generate information as part of the company’s control environment and to provide data to assist personnel in forming conclusions regarding the effectiveness of internal controls related to financial information systems. As such, at the time the GRC system was being implemented, it was intended to be subject to the internal control over financial reporting audit procedures.

10. The Commission’s independence rules prohibit independent auditors from designing and implementing systems such as GRC where the software aggregates source data, or generates information significant to the clients’ financial statements or other financial systems as a whole.⁴ Designing, implementing, or operating systems affecting the financial statements may also place the accountant in a management role, or result in the accountant auditing his or her own work or attesting to the effectiveness of internal control systems designed or implemented by that accountant. The independence rules also prohibit an independent auditor from performing management functions.⁵

11. As early as April 2014, Issuer A placed PwC on notice that the company was seeking help for an implementation project. At that time, in connection with Issuer A’s pursuing proposals for implementing a module of GRC software, the company’s then-Head of Internal Audit asked Sprankle whether PwC could provide an implementation proposal and inquired about auditor independence. Sprankle responded that “we are absolutely permitted to implement so there will be no issues . . .” Sprankle, however, was aware that PwC’s independence policies did not allow the firm or him to implement the GRC system at Issuer A.

12. In or around early May 2014, Sprankle forwarded a proposal to Issuer A for “assistance with implementing” the GRC module. The proposal contained numerous tasks that, taken as a whole, would not be consistent with independence rules and PwC’s policies, *e.g.*, performing integration testing and working closely with Issuer A’s personnel to resolve

⁴ See Rule 2-01(c)(4)(ii) of Regulation S-X.

⁵ See Rule 2-01(c)(4)(vi) of Regulation S-X.

integration problems, working with management to determine security configurations, and providing continuous hands-on training on how to use the software.

13. As Sprankle and his team understood, Issuer A did not have the internal capabilities or expertise to design and implement the GRC module itself and, thus, required an outside party to perform these functions. In late May 2014, for example, PwC knew that Issuer A had elicited multiple competitive bids from third parties to design and implement the GRC module.

14. In early June 2014, Issuer A selected PwC for the GRC project. Although Issuer A did not utilize GRC in connection with the preparation of its fiscal year 2014 financial statements, at this time PwC was auditing Issuer A's financial statements and internal control over financial reporting for fiscal year 2014. Sprankle, who negotiated and oversaw the GRC project, also participated in PwC's audit of Issuer A as an information technology specialist on the audit engagement team.

15. In seeking internal authorization to perform the non-audit GRC work, Sprankle drafted an engagement letter for approval by PwC's Risk Assurance Independence ("RAI") group, an independence-reviewer within his business unit. In the draft engagement letter, Sprankle described the proposed services as assessing multiple areas, and providing observations and recommendations, as opposed to designing and implementing the GRC project. This description was inconsistent with Issuer A's expectation that PwC would conduct a design and implementation project as previously communicated to PwC.

16. In early June 2014, Issuer A again put PwC on notice that it expected PwC to design and implement a GRC solution for Issuer A and to manage the project. After PwC sent the draft engagement letter, Issuer A's then-Head of Internal Audit objected to the description of the services contained in the draft engagement letter. In the email, he informed PwC that the proposed work was an "implementation project that's been outsourced" to PwC.

17. Sprankle thereafter met with the then-Head of Internal Audit of Issuer A, who understood from speaking with Sprankle that PwC would substantially design and implement the GRC module, and would perform project management functions. At this time, PwC was continuing its audit of Issuer A for fiscal year 2014 and, due to Issuer A's prior accounting errors, performing additional audit work for fiscal years 2011 and 2012.

18. The final engagement letter for the GRC project described the work as performing assessments and high-level recommendations. However, as internal PwC communications reflect, certain PwC employees characterized the engagement as a design and implementation project. For example, in a July 2014 email, a PwC manager communicated his view that the project involved the implementation of a financial information system. The email stated: "We will now implement GRC on 11i to support the production year end and audit." Another PwC manager responded, in part: "We'll need to get . . . scripts for the client to run on 11i so we can grab the data and then can leverage that for implementing GRC." In response, the manager suggested additional items, including a "straw-man of a PwC 11i GRC implementation plan or task list."

19. In August 2014, PwC began the GRC work with a kick-off presentation that was explicit about the goal to “Implement an Oracle Advanced Controls solution for [Issuer A].” Thereafter, PwC prepared a project plan and milestones, and provided regular status reports.

20. To start the work, another PwC manager instructed a PwC associate to prepare a design document: “I need you to immediately begin working on creating a design document for how [the GRC module] will be built for the [GRC] rules we already know about. Below are the SOD [Segregation of Duties, an internal control concept allocating duties amongst employees] rules we know we need to build”

21. From August through mid-October 2014, PwC managed the project, performed substantial design work, configured the design on a non-production server, and provided oversight and direction for the implementation to a live environment. According to the senior manager for IT Internal Audit: Issuer A had little involvement in the assessment and design phase of the project; further, Issuer A lacked the technical expertise to configure the system; and, although Issuer A ultimately had to approve the work, PwC exercised decision-making authority in designing and configuring the GRC module.

22. As the project progressed in September 2014, the PwC manager emailed the senior manager for IT Internal Audit at Issuer A, who had oversight of the project, about problems with the GRC server and application that needed to be addressed before PwC could perform development work: “We identified some critical issues that need to be resolved before we can get in there and do the development.”

23. Throughout the course of the GRC engagement, Issuer A considered PwC to be the system implementer and deferred to PwC on best practices for settings that needed to be included in the system. Further, according to the senior manager for IT Internal Audit: Issuer A allowed PwC “to make those decisions for us” and, although an Issuer A employee would technically have his hands on the keyboard, a PwC employee managed the process and directed the Issuer A employee on what actions to take.

24. In early November 2014, after the PCAOB notified PwC regarding concerns with regard to the firm’s independence on the Issuer A audit engagement, but before the issuance of the 10-K and the incorporated audit opinion therein for fiscal year 2014, Issuer A and PwC provided written notification seeking to consult with the Commission’s Office of Chief Accountant about these concerns.

25. On another project for Issuer A, occurring around the same time in 2014 as the GRC project, PwC provided services, which Sprinkle negotiated and subsequently supervised, related to Issuer A’s upgrade of its enterprise software and related programs (“the R12 project”).

26. Companies use enterprise software to manage their overall businesses, including a wide array of day-to-day activities such as accounting, procurement, and manufacturing. PwC performed services on the R12 project with Issuer A’s Internal Audit group.

27. In early 2014, PwC marketed pre- and post-implementation assessment services to Issuer A, which ultimately became the R12 project. Pre-implementation services are

performed prior to a system going “live,” or actually being used by the company in its business or financial operations. By contrast, post-implementation work is performed after a system is in use. In the documents PwC used to market the work, many of the proposed services were non-audit work to be performed pre-implementation, *i.e.*, assessments and reviews before the system was in use, with PwC making recommendations and providing reports to Issuer A.

28. In late March 2014, the Audit Committee of the Board of Directors of Issuer A approved an Internal Audit Plan, which included a “Pre Implementation Review” of R12 and of financial and human resources software. This meant that Issuer A’s internal auditors were going to perform a pre-implementation review of R12 and the other software programs.

29. In early May 2014, Sprankle sought internal approval from PwC’s RAI group for the R12 project as a non-audit consulting engagement. The draft engagement letter (and two subsequent drafts) described services for which Issuer A personnel would contribute 1000 hours of work, and specifically stated that the work would be performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (“AICPA”).

30. On June 5, 2014, Issuer A’s Audit Committee approved the R12 project as “non-audit consulting” services. Specifically, the Audit Committee approved up to \$290,000 for services with respect to the pre-implementation review of the enterprise software upgrade. On the same day, after the Audit Committee approval of the non-audit consulting project, RAI received an updated statement of work, in which the project was again described as consulting assessments to be performed under AICPA consulting standards.

31. By mid-June 2014, RAI had not approved the project. A PwC IT manager from the audit team spoke with RAI. On June 16, 2014, the IT manager reported that RAI “was asking: Why did we delegate 1000 hours to [Internal Audit]. It seemed a lot of hours. It could [be] considered/viewed as an [internal audit] co-sourcing engagement, which is not allowed for [an audit client].” Later that day, Sprankle forwarded another revised engagement letter, which continued to describe the proposed work as a consulting engagement with the client providing over 1000 hours of assistance.

32. On June 19, 2014, RAI responded in writing to the IT manager, raising concerns that the proposed consulting services violated independence requirements because the services constituted a prohibited arrangement with Issuer A’s internal audit department. RAI wrote:

The enlisting of the client’s internal audit department in assistance of our assessment makes this engagement appear to be a prohibited internal audit co-sourcing arrangement. The draft engagement letter states that the client’s internal audit department will dedicate 1000 hours to assist in our assessment/engagement. I believe we are at an impasse and believe you should either cease the involvement of the client’s internal audit department in our assessment or if you do not agree than [sic] you should submit a formal independence consultation with the US Independence Office to obtain clearance that we can use the client’s internal audit department in our assessment.

33. After discussing the matter with RAI, Sprankle did not follow the instructions to either remove Issuer A's Internal Audit involvement or seek a formal independence consultation. Instead, he changed the description of the services from a consulting project to audit procedures. Sprankle then notified the IT manager that "if we switch the current [engagement letter] format from a consultancy to an addendum to the audit engagement letter we will be fine." On that basis, RAI approved the R12 project without further questions, concerns or review despite knowing that the description of the engagement had suddenly changed, without explanation, from non-audit to audit services.

34. Because the R12 project was re-characterized as audit services, the work was not subject to proper internal review to assess auditor independence prohibitions, including a review to determine whether the R12 project constituted prohibited non-audit services or outsourced internal audit work to be performed during an audit engagement for Issuer A.

35. On July 1, 2014, Sprankle forwarded the draft addendum to the audit engagement letter to Issuer A's then-Head of Internal Audit, indicating that PwC's "risk management office has asked that we have this engagement letter as an extension of the audit engagement letter because of the assistance we are receiving from internal audit."

36. Before beginning the R12 work, PwC did not provide the draft addendum to Issuer A's Audit Committee, which had to approve the audit engagement, nor did PwC otherwise inform the Audit Committee that the R12 work was now being characterized as audit work. On July 9, 2014, Issuer A's then-Head of Internal Audit signed the amendment to the audit engagement letter.

37. Issuer A's Audit Committee did not authorize the R12-related services as part of any audit. As a result of PwC's mischaracterizing the project as audit services and not informing the Audit Committee of this change, the Audit Committee was deprived of the opportunity to perform its responsibilities, including having an understanding of the services that were proposed and the purpose of that work, approving audit engagement fees and terms, reviewing the auditor's approach to and the scope of the audit, and overseeing the company's compliance with SEC requirements related to disclosure of the auditor's services and fees.

38. In reality, the R12 project remained a non-audit services project related to financial information systems design and implementation upon which PwC needed to directly rely on Issuer A's Internal Audit group. The engagement letter for the R12 project, for example, demonstrates that the project was not intended as audit procedures. It did not describe how the R12 project involved procedures required to audit Issuer A's financial statements or internal control over financial reporting. In fact, as set forth in the letter, Issuer A sought an "independent reviewer" to "help management to understand the potential risks and quality of the [R12] project" and to make assessments and provide recommendations. Based on the letter, Issuer A would control "the scope of [PwC's] assessment and designate each of the processes, etc. that will be the subject of [PwC's] assessment." By contrast, in an audit, the independent auditor determines the scope of the audit and the procedures to be performed.

39. On July 16, 2014, Issuer A informed PwC that the company would not go live with R12 until fiscal year 2016—two years later from the fiscal year 2014 audit that PwC was

performing at the time. As a result, R12 was not Issuer A's system of record for fiscal year 2014, making it impossible for the R12 project to be a part of any audit for 2014 or even 2015, for which the Audit Committee had not executed an engagement letter retaining PwC. Accordingly, there was no basis for PwC to perform any audit procedures concerning R12.

40. In mid-July 2014, PwC started working on the R12 project, billing Issuer A over \$70,000 for work performed through September 2014. In late October 2014, PwC halted work on the R12 project because of independence concerns raised by the PCAOB concerning the GRC project.

41. Although PwC did not complete the full R12 project, PwC developed audit work programs, which were not needed for any PwC audit work, but which were used by Issuer A's internal auditors for their fiscal year 2015 internal audit of R12 and the other software programs (per the Internal Audit Plan approved in March 2014).

42. During the R12 project, PwC also provided its proprietary frameworks on settings and configurations to Issuer A so that the company could incorporate the configurations and controls into its design.

PwC's Violations of PCAOB Rule 3525

43. PCAOB Rule 3525 provides that, in seeking audit committee pre-approval to perform non-audit services for an audit client related to internal control over financial reporting, an auditor must describe in writing to the audit committee the scope of the work, discuss with the audit committee the potential effects of the work on independence, and document the substance of the independence discussion.

44. From 2013 through 2016, on nineteen engagements involving fifteen SEC-registrant audit clients, PwC violated PCAOB Rule 3525 by failing to obtain proper audit committee pre-approval pursuant to the requirements thereunder. On numerous engagements, PwC mischaracterized non-audit services as audit work. For example, the non-audit services involved PwC providing feedback and recommendations for management. PwC mischaracterized non-audit services as audit work involving "pre-implementation" work involving financial software systems *before* the software was even implemented and providing recommendations to management on those systems.

45. By failing to comply with Rule 3525, PwC failed to discuss with the audit committees for fifteen issuers the scope of the services and the implications of performing the work on PwC's independence, thereby depriving the committees of their responsibilities to evaluate fully the provision of non-audit services, and to assess the potential effect of those services on auditor independence.

46. For example, on the GRC engagement for Issuer A, PwC failed to describe the non-audit services in writing and in sufficient detail such that the audit committee would understand what was being sought to be approved. When PwC sought pre-approval from the audit committee, the only written description that PwC conveyed to the committee was the title for the project. This written description did not allow the committee to make an informed

decision about the scope of the work and how the work might affect PwC's independence, thus depriving the committee of its oversight responsibilities.

47. In addition, from March 2014 through November 2014, PwC performed a similar GRC engagement involving non-audit services for another audit client, Issuer B. During the time period when the work was performed, PwC reviewed Issuer B's financial statements for three quarterly reports that Issuer B filed on Forms 10-Q in 2014. In connection with this engagement, PwC failed to describe the proposed non-audit services in writing in sufficient detail and to document sufficiently the required independence discussion with the issuer's audit committee. In late 2014, PwC halted its work on the GRC engagement because of its concerns that the work may have violated the design-and-implementation prohibitions in the independence rules. Given these concerns, PwC returned the fees associated with these non-audit services.

48. For another audit client, Issuer C, for instance, PwC provided non-audit services concerning the company's planned implementation of several software programs from 2013 through 2015. The non-audit services involved internal control over financial reporting for Issuer C. At the time of contracting, and when the services were performed, PwC had described the work to the audit committee as audit services. For one of the non-audit services projects, as PwC documented in its workpapers, the software system that was subject to its services would not be operational during the fiscal year that PwC was auditing. Nevertheless, PwC included the work as audit services for that fiscal year. As a result of PwC's mischaracterizing the non-audit services, PwC did not discuss with Issuer C's audit committee, or document, the effect of performing such work on PwC's independence. As a result, PwC violated PCAOB Rule 3525 on two separate projects for Issuer C in 2014 and 2015.

49. As another example, in 2015, PwC performed services concerning security controls, including non-audit services, for another audit client, Issuer D. In January, 2015, PwC began providing the non-audit services, even though PwC had not sought pre-approval from Issuer D's audit committee or described the services and the independence implications of the non-audit services, which involved internal control over financial reporting. In May 2015, PwC contracted with Issuer D for PwC to perform the audit of Issuer D for fiscal year 2015. Even though PwC had been providing non-audit services since January 2015, PwC did not disclose that to Issuer D's audit committee. Instead, PwC included the non-audit work as audit services in the audit engagement letter, and billed Issuer D for the services as part of the audit work. In the audit plan, PwC represented that "[t]he scope of the work related [security controls] is strictly limited to satisfy the requirements of the integrated audit."

PwC's Quality Control System

50. PCAOB standards require auditors to be independent of SEC-registrant audit clients. In addition, PCAOB quality control standards require audit firms to establish policies and procedures "to provide the firm with reasonable assurance that personnel maintain independence (in fact and in appearance) in all required circumstances." (QC 20.09). Audit firms are required to monitor on an ongoing basis whether personnel are complying with the independence requirements. (QC 20.08). Such quality controls must be suitably designed in relation to, among other factors, the firm's size, number of offices, and nature and complexity of the firm's practice. (QC 20.04).

51. From 2014 through at least 2015, PwC’s quality control system did not effectively provide reasonable assurance that the firm and its employees maintained independence from their SEC-registrant audit clients in the instances described herein. Specifically, because of the breakdowns in its controls, PwC’s quality control system did not operate effectively: a) for evaluating permissibility of proposed non-audit services, including elevating proposed engagements that had a higher risk of breaching the independence rules; b) for reviewing proposed audit services to provide reasonable assurance that the proposed services were appropriately characterized as such; c) for monitoring the performance of services by engagement teams to provide reasonable assurance that the teams were not providing prohibited non-audit services to audit clients and to provide reasonable assurance that those services were consistent with the work contracted for; and d) for monitoring engagement teams for compliance with PCAOB Rule 3525, such that services were accurately and fully described to audit committees so that the committees could make informed decisions about the potential effects of the non-audit services on the independence of the firm and about approving the services pursuant to Rule 3525.

Violations

52. Rule 2-02(b)(1) of Regulation S-X provides that an accountant’s report must state whether the audit was made in accordance with generally accepted auditing standards (“GAAS”).⁶ PCAOB standards require that auditors maintain strict independence from SEC audit clients. *See* PCAOB Auditing Standards, *Independence*, AU § 220.02.⁷ Rule 2-01 of Regulation S-X sets forth the conditions under which “[t]he Commission will not recognize an accountant as independent, with respect to an audit client.” Thus, and through the conduct described above, PwC violated Rule 2-02(b)(1) of Regulation S-X when PwC issued its audit report for Issuer A dated November 13, 2014, stating that PwC had conducted its audit in accordance with PCAOB standards when it had not.

53. An issuer violates Section 13(a) of the Exchange Act and Rule 13a-1 thereunder when such issuer files with the Commission annual reports that contain materially false or misleading information or if they file annual reports that fail to include financial statements audited by an independent public accountant. Scienter is not required for a violation of Section 13(a). Similarly, an issuer violates Section 13(a) of the Exchange Act and Rule 13a-13 thereunder when such issuer files with the Commission quarterly reports that fail to include interim financial statements reviewed by an independent public accountant. In administrative proceedings, the Commission may impose sanctions upon any person that is, was, or would be a cause of a violation, due to an act or omission the person knew or should have known would contribute to such violation. In order to establish that a person caused a non-scienter based violation, the Commission has specifically ruled that a showing of negligence will suffice.

⁶ Pursuant to the Commission’s 2004 interpretive guidance in Securities Act Release No. 33-8422, GAAS, as used in Regulation S-X, means “the standards of the PCAOB plus any applicable Commission rules.” Audit reports dated on or after May 24, 2004 – the effective date of PCAOB Auditing Standard 1 – are required to state that they were performed in accordance with PCAOB standards. PCAOB rules and standards require auditors to be independent from their audit clients. *See, e.g.*, PCAOB Rule 3520, PCAOB Rule 3500T, and PCAOB AS 1005.

⁷ References to PCAOB standards are to those that were in effect at the time of the relevant conduct.

54. PwC did not conduct the audit of Issuer A's financial statements in accordance with PCAOB standards, and then issued an audit report on November 13, 2014, stating that PwC was independent when it was not. PwC also was not independent when it reviewed Issuer A's interim financial statements for the first quarter of fiscal year 2015, which Issuer A filed with the Commission in its Form 10-Q on November 14, 2014. As a result, PwC was a cause of Issuer A's violations of Section 13(a) and Rules 13a-1 and 13a-13 thereunder.

55. Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice provide, in part, that the Commission may censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct. With respect to persons licensed to practice as accountants, "improper professional conduct" includes either of the following two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that 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. Commission Rules of Practice, Rule 102(e)(1)(iv)(B). As a result of the conduct described above, PwC engaged in "improper professional conduct" within the meaning of Exchange Act Section 4C(a)(2) and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

Findings

56. Based on the foregoing, the Commission finds that Respondent PwC (a) engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice; (b) violated Rule 2-02(b) of Regulation S-X with respect to the annual report of Issuer A; and (c) caused Issuer A to violate Section 13(a) of the Exchange Act, and Rules 13a-1 and 13a-13 thereunder.

Respondent's Remedial Efforts

57. Since the time period at issue in this Order, Respondent has implemented remedial measures to enhance its existing policies, procedures, systems, and training over time regarding auditor independence including: (1) increasing training of all employees regarding SEC and PCAOB independence rules; (2) disciplining employees who had supervisory responsibility over the provision of prohibited services; and (3) developing an enhanced risk assessment program with additional independence policies and procedures.

58. In determining to accept the Offer, the Commission considered the remedial acts undertaken by Respondent and the cooperation afforded the Commission staff.

Undertakings

59. Respondent, PwC, undertakes to complete the following actions:

- a. Notification. PwC shall provide all audit personnel a copy of this Order within ten (10) business days after entry of the Order.

b. PwC Implementation of Policies

- i. Implement internal policies and procedures (the “Proposed Policies”) to enhance PwC’s ability to comply with the independence requirements under PCAOB standards and applicable Commission rules concerning the provision of non-audit services (i.e., all services other than those for an “audit” as defined in Regulation S-X) to SEC audit clients by achieving the following goals of improving:
 1. PwC’s review procedures for new service offerings for non-audit services for SEC audit clients;
 2. PwC’s independence policies, guidance, and training;
 3. PwC’s policies and procedures for identifying and describing to audit clients their non-audit services;
 4. PwC’s clearance and compliance procedures for non-audit services related to the independence rules;
 5. PwC’s monitoring of non-audit services being performed for audit clients, including policies and procedures for reviewing work in progress to assess compliance with independence rules; and
 6. PwC’s policies and procedures for characterizing services as “audit” or “non-audit.”

c. PwC Policies Report and Validation Plan

- i. Within ninety (90) days after the entry of this Order, PwC shall submit to the staff of the Division of Enforcement a report (the “PwC 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 PwC’s quality management and audit procedures regarding the Proposed Policies. The PwC Policies Report shall also describe in reasonable detail PwC’s methodology and work plan to review, test, and assess whether the Proposed Policies are designed to provide reasonable assurance of compliance with the independence requirements under PCAOB standards and applicable Commission rules concerning the provision of non-audit services to SEC audit clients, i.e., all services other than those for an “audit” as defined in Regulation S-X, to SEC audit clients (the “Validation Plan”). The staff of the Division of Enforcement may make reasonable requests for further evidence of the quality controls and validation plan set forth in the PwC Policies Report and Validation Plan, and PwC agrees to provide such evidence.

The Validation Plan, not unacceptable to the staff of the Division of Enforcement, shall include detailed review, testing, and assessment of the Proposed Policies.

d. Initial Validation Report and Certification

i. Initial Validation Report. Within 180 days after the issuance of the PwC Policies Report and Validation Plan, PwC shall submit to the staff of the Division of Enforcement a written report setting forth a complete description of the testing, analysis, and results of its Validation Plan (“Initial Validation Report”).

ii. Initial Validation Certification. The Initial Validation Report shall include a certification executed by: (a) PwC’s Regulatory Risk and Quality Control Leader; and (b) PwC’s Partner Responsible for Independence (collectively “the PwC Signatories”) that the PwC Proposed Policies are designed to provide reasonable assurance of compliance with the independence requirements under PCAOB standards and applicable Commission rules concerning the provision of non-audit services to SEC audit clients, and if deficiencies in the design or operation of the Proposed Policies are identified, shall report such deficiencies to the staff of the Division of Enforcement (“Initial Validation Certification”). The staff may make reasonable requests for further evidence of compliance, including the testing results, and PwC agrees to provide such evidence. If deficiencies in the firm’s system of quality control are identified, PwC shall report such deficiencies to the staff and state that it cannot certify compliance.

e. Second Validation Plan. Within one-hundred-eighty (180) days after the issuance of the Initial Validation Report, PwC shall submit to the staff of the Division of Enforcement an updated validation plan not unacceptable to the staff: (a) to review, test, and assess whether the Proposed PwC Policies are designed to provide reasonable assurance of compliance with the independence requirements under PCAOB standards and applicable Commission rules concerning the provision of non-audit services to SEC audit clients; 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”).

f. Second and Final Validation Report and Certification.

i. Second Validation Report. Within nineteen (19) months after the institution of this Order, PwC shall submit to the staff of the Division of Enforcement a written report setting forth a complete description of the testing, analysis, and results of its Second Validation Plan (“Second Validation Report”).

- g. Final Validation Certification. The Second Validation Report shall include a certification executed by the PwC Signatories that the Proposed Policies are designed to provide reasonable assurance of compliance with the independence requirements under PCAOB standards and applicable Commission rules concerning the provision of non-audit services, and if deficiencies in the design or operation of Proposed Policies are identified, shall report such deficiencies to the staff of the Division of Enforcement (“Second Validation Certification”). The staff may make reasonable requests for further evidence of compliance, including the testing results, and PwC agrees to provide such evidence. If significant deficiencies are identified, PwC shall report such deficiencies to the staff and state that it cannot certify compliance.
- h. Submissions to the Staff of the Division of Enforcement. The staff of the Division of Enforcement may request access to documents, internal review, training materials, PwC personnel, and/or meetings with PwC, within thirty (30) days of receipt of any Report, Plan, or certification. Unless otherwise directed by the staff, all Reports, Plans, Certifications, and other documents required to be provided to the staff shall be sent to: Anita B. Bandy, Associate Director, 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”). PwC will make all Reports, Plans, and Certifications available to PCAOB staff upon request.
- i. Unless otherwise notified by the Division of Enforcement, these undertakings are deemed satisfied upon the later of: (a) nineteen (19) months after the entry of this Order; or (b) written confirmation by the staff of the Division of Enforcement that they have received a Final Validation Certification free from significant deficiencies.
- j. Recordkeeping. PwC 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.
- k. Petition to Reopen Matter. In determining whether to accept PwC’s Offer, the Commission has considered these undertakings. PwC agrees that if the Division of Enforcement believes that PwC has not satisfied these undertakings, it may petition the Commission to reopen the matter to determine whether additional sanctions are appropriate.
- l. Deadlines. For good cause shown, the staff of the Division of Enforcement 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.

60. These undertakings shall be binding upon any acquirer or successor-in-interest to PwC's, or substantially all of PwC's, audit practice for SEC audit clients.

61. All reports or other written communications by PwC directed to the staff of the Division of Enforcement shall be transmitted to Anita B. Bandy, Associate Director, Division of Enforcement, U.S. Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549.

62. For good cause shown, the staff of the Division of Enforcement may extend any of the procedural dates set forth above.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

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

A. Respondent PwC shall cease and desist from committing or causing any violations and any future violations of Rule 2-02 of Regulation S-X.

B. Respondent PwC shall cease and desist from committing or causing any violations and any future violations of Section 13(a) of the Exchange Act, and Rules 13a-1 and 13a-13 thereunder.

C. Respondent PwC is censured.

D. Respondent shall comply with the undertakings enumerated in paragraphs 58(a) through (k), above.

E. Respondent shall, within ten (10) days of the entry of this Order, pay (i) disgorgement of \$3,830,213, plus prejudgment interest of \$613,842, and (ii) a civil money penalty in the amount of \$3,500,000, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. If timely payment of the civil penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

F. All payments required by this Order must be made in one of the following ways:

1. Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
2. Respondent 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. Respondent 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 PwC as the Respondent in these proceedings, and the file number of these proceedings. A copy of the cover letter and check or money order, or documentation of whatever other form of payment is used, must be simultaneously sent to Anita Bandy, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, DC 20549.

G. 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, Respondent agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he 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 Respondent 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.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary