



**ORDER**

**I.**

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents.

**II.**

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the facts contained in paragraphs 7 through 15 and 31 through 38 below and the Board's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>4</sup>

**A. Respondents**

1. Tamas B. Revai, CPA is, and at all relevant times was, a sole proprietorship organized under the laws of New York and is headquartered in New York, New York. The Firm is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. Based on public records, the Firm does not appear to be currently

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<sup>3</sup> The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.



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licensed in the state of New York or any other state. At all relevant times, the Firm was the external auditor for the broker-dealer identified below.

2. Tamas B. Revai, CPA, age 80, of New York, New York is a certified public accountant licensed by the New York State Education Department (License No. 027854). At all relevant times, Revai was the sole owner of the Firm and was the Firm's sole accountant. Revai is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

### **B. Summary**

3. This matter concerns Respondents' violations of PCAOB rules and auditing standards in connection with the Firm's audit of the financial statements of Federated Securities, Inc. ("Federated"), a broker-dealer, for the fiscal year ("FY") ended September 30, 2014. As detailed below, Respondents violated PCAOB Rule 3520, *Auditor Independence*, and AU § 220, *Independence*, by failing to remain independent of Federated throughout the audit and professional engagement period.

4. Respondents also violated PCAOB rules and standards in connection with the FY 2014 audit by failing, among other things, to obtain sufficient appropriate audit evidence to support the Firm's audit opinion on Federated's 2014 financial statements. Additionally, Respondents violated PCAOB Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers* ("AT 2") in performing the review of statements made by Federated in its exemption report prepared pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 17a-5, 17 C.F.R. § 240.17a-5 ("Rule 17a-5").

5. This matter also concerns Respondents' violations of Rule 4006, *Duty to Cooperate with Inspectors*, and Auditing Standard No. 3, *Audit Documentation*, ("AS 3"). In advance of the Board's 2015 inspection of the Firm, Respondents improperly created or altered audit documentation and added that documentation to the work papers in violation of Rule 4006.

6. Finally, this matter concerns the Firm's violation of Section 102(d) of the Act and PCAOB Rule 2200, *Annual Report*, as a result of the Firm's failure, in 2016, to file an annual report with the Board, and the Firm's violation of PCAOB Rule 2202, *Annual Fee*, as a result of the Firm's failure, in 2016, to pay an annual fee to the Board.

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**C. Respondents Violated PCAOB Rules and Standards**

7. For audits of fiscal years ending on or after June 1, 2014, including the Federated audit, Rule 17a-5(g) requires that audits of broker-dealers be performed in accordance with PCAOB standards.

8. PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm's audit client throughout the audit and professional engagement period.<sup>5</sup> The independence criteria are set forth in the rules and standards of the PCAOB and the U.S. Securities and Exchange Commission ("Commission").

[A] registered public accounting firm or associated person's independence obligation with respect to an audit client encompasses not only an obligation to satisfy the independence criteria applicable to the engagement set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.<sup>6</sup>

9. Pursuant to Rule 17a-5(f)(1), Commission Rule 2-01(c)(4)(i) of Regulation S-X applies to broker-dealer audits and provides that an accountant performing a broker-dealer audit is not independent if, at any point during the audit and professional engagement period, the accountant maintains or prepares the audit client's accounting records or prepares the audit client's financial statements that are filed with the Commission.

10. As described below, Respondents failed to comply with the applicable PCAOB rules and standards.

Independence Violations

11. At all relevant times, Federated was a broker-dealer incorporated in the state of New Jersey with its principal place of business in Huntington, New York. Federated's public filings disclose that it engages in selling stocks, mutual funds, annuities, and tax shelters. Federated is an introducing broker-dealer that clears all

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<sup>5</sup> See PCAOB Rule 3520; AU § 220.

<sup>6</sup> See PCAOB Rule 3520, Note 1.



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transactions with and for customers on a fully-disclosed basis with a third-party firm, a clearing broker-dealer, and claims an exemption from the Customer Protection Rule under paragraph (k)(2)(ii) of Exchange Act Rule 15c3-3 ("Rule 15c3-3").<sup>7</sup> At all relevant times, Federated was a "broker" and "dealer," as defined in Section 110(3) and (4) of the Act and PCAOB Rule 1001(b)(iii) and (d)(iii).

12. On November 26, 2014, Federated filed Form X-17A-5 Part III for FY 2014 with the Commission. Included in that filing was the Firm's FY 2014 audit report dated November 20, 2014 ("Audit Report").

13. During 2014, Respondents maintained and prepared certain accounting records and financial statements of Federated. Specifically, Respondents prepared certain adjusting journal entries for FY 2014, including receivables for mutual fund revenue, commissions' expense and other expense accruals, and a tax adjustment.

14. Respondents also assisted in the preparation of Federated's financial statements as of September 30, 2014 by organizing and classifying Federated's trial balance information and updating the disclosures in the notes to the financial statements.

15. As a result of maintaining and preparing accounting records and preparing Federated's financial statements, Respondents were not independent of Federated in connection with the audit and violated PCAOB Rule 3520 and AU § 220.

### Audit Violations

16. In connection with the preparation or issuance of an audit report, PCAOB rules and standards require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>8</sup> An auditor may express an unqualified opinion on financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance

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<sup>7</sup> See Rule 15c3-3, 17 C.F.R. § 240.15c3-3, *Customer Protection – Reserves and Custody of Securities* (the "Customer Protection Rule").

<sup>8</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards* and PCAOB Rule 3200T, *Interim Auditing Standards*. All references to PCAOB standards are to the versions of those standards in effect at the time of the Federated audit.



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with PCAOB standards.<sup>9</sup> Among other things, PCAOB standards require an auditor to exercise due professional care and professional skepticism, and obtain sufficient appropriate audit evidence to afford a reasonable basis for an opinion regarding the financial statements.<sup>10</sup>

17. PCAOB standards also require that an audit be properly planned, including performing risk assessment procedures sufficient to provide a reasonable basis for identifying and assessing the risk of material misstatement, whether due to error or fraud.<sup>11</sup> The auditor should identify and assess the risks of material misstatement at the financial statement level and the assertion level, and design and perform audit procedures in a manner that addresses the risks of material misstatement for each relevant assertion of each significant account and disclosure.<sup>12</sup>

18. An auditor should also evaluate whether the information gathered from the risk assessment procedures indicates that one or more fraud risk factors are present and should be taken into account in identifying and assessing fraud risks.<sup>13</sup> If the auditor is unable to obtain sufficient appropriate audit evidence to have a reasonable basis to conclude about whether the financial statements as a whole are free of material misstatement, the auditor should express a qualified opinion or a disclaimer of opinion.<sup>14</sup>

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<sup>9</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>10</sup> See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; and Auditing Standard No. 15, *Audit Evidence* ("AS 15").

<sup>11</sup> See Auditing Standard No. 9, *Audit Planning* ("AS 9"), ¶ 4; See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶¶ 4-58.

<sup>12</sup> See AS 12 ¶ 59; Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13"), ¶ 8.

<sup>13</sup> See AS 12 ¶ 65.

<sup>14</sup> See Auditing Standard No. 14, *Evaluating Audit Results*, ¶ 35.

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19. As described below, Respondents failed to comply with PCAOB rules and standards in connection with the Federated audit.

*Audit of 2014 Federated's Financial Statements*

20. Revai was the engagement partner for the Firm's audit of Federated's financial statements for FY 2014. Revai authorized the Firm's issuance of Federated's Audit Report included in Federated's Form X-17A-5 Part III for FY 2014 filed with the Commission on November 26, 2014. The Audit Report expressed an unqualified opinion on Federated's financial statements, and stated, among other things, that the Firm's audit was conducted in accordance with PCAOB rules and standards.

21. The majority of Federated's revenue is derived from commissions. For the audit of Federated's FY 2014 financial statements, commission revenue totaled \$315,069. Commission revenue included sales of securities and mutual funds, net of expenses, totaling \$193,803 and mutual fund income of \$121,266.

22. Respondents failed to comply with applicable PCAOB standards in connection with Federated's FY 2014 audit. Respondents failed to perform audit planning and risk assessment procedures to establish the overall audit strategy and develop and document an audit plan.<sup>15</sup> Respondents also failed to perform any procedures to identify, assess, and respond to the risks of material misstatement due to fraud, including the presumption that improper revenue recognition is a fraud risk.<sup>16</sup>

23. In performing the FY 2014 audit, Respondents failed to obtain sufficient appropriate audit evidence concerning revenue.<sup>17</sup> Respondents relied on a third-party clearing firm's month-end settlement statements for sales of securities and mutual funds without performing any procedures to test the accuracy and completeness of the information.<sup>18</sup> Additionally, Respondents failed to evaluate whether the information was sufficiently precise and detailed for purposes of the audit.<sup>19</sup> Respondents further failed

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<sup>15</sup> See AS 9 ¶¶ 8, 10.

<sup>16</sup> See AS 12; AS 13.

<sup>17</sup> See AS 15 ¶ 4; AS 13 ¶ 13.

<sup>18</sup> See AS 15 ¶ 10.

<sup>19</sup> Id.

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to perform any procedures to test whether commissions earned from the purchase or sale of securities and mutual funds were properly valued.<sup>20</sup> Respondents also failed to perform any audit procedures to test whether revenue from mutual fund income occurred during the period and was properly valued.<sup>21</sup>

24. Additionally, Respondents failed to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of revenue for Federated's FY 2014 financial statements.<sup>22</sup> Specifically, Respondents failed to perform any procedures to test whether revenue was properly classified, described, and disclosed.<sup>23</sup> In fact, Federated's accompanying notes to the financial statements did not contain any disclosures concerning its revenue recognition policy.<sup>24</sup>

25. Lastly, Respondents failed to prepare an engagement completion document that identified all significant findings or issues for the FY 2014 audit.<sup>25</sup>

Violation of Attestation Standard No. 2

26. Rule 17a-5 requires broker-dealers that claim an exemption from Rule 15c3-3, or the Customer Protection Rule, to prepare an exemption report, in which the broker-dealer (1) identifies the exemption provision of paragraph (k) of Rule 15c3-3 under which the broker-dealer claimed an exemption; (2) states that the broker-dealer met the identified exemption provision throughout the most recent fiscal year without exception or met the identified exemption provisions throughout the most recent fiscal year except as described in the exemption report; and (3) if applicable, a statement that identifies, each exception during the most recent fiscal year in meeting the identified exemption provision and that briefly describes the nature of each exception and the

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<sup>20</sup> See AS 15 ¶¶ 4, 6, 7, 11.

<sup>21</sup> Id.

<sup>22</sup> Id.

<sup>23</sup> Id.

<sup>24</sup> See Financial Accounting Standards Board Accounting Standard Codification 235, *Notes to Financial Statements*.

<sup>25</sup> See AS 3 ¶¶ 12-13.



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approximate date(s) on which the exception existed.<sup>26</sup> Rule 17a-5 also requires the broker-dealer to engage an independent public accountant registered with the PCAOB to review, and independently report on, the statements in the broker-dealer's exemption report.<sup>27</sup>

27. AT 2 establishes requirements for an auditor's review of the statements made by a broker-dealer in an exemption report.<sup>28</sup> When performing the review, the auditor must plan and perform the review engagement to obtain appropriate evidence that is sufficient to obtain moderate assurance about whether one or more conditions exist that would cause one or more of the broker-dealer's assertions not to be fairly stated, in all material respects.<sup>29</sup> The review engagement should be coordinated with the audit of the financial statements and take into account relevant evidence from the audit of the financial statements and the audit procedures performed on the supplemental information of the broker-dealer.<sup>30</sup> Prior to issuing a review report, the auditor is required to obtain written representations from management of the broker-dealer.<sup>31</sup>

28. As part of the FY 2014 audit, Respondents issued a review report dated November 20, 2014. As the engagement partner, Revai was responsible for planning and performing review procedures for the review engagement.<sup>32</sup>

29. Respondents failed to plan and perform the review engagement to obtain appropriate evidence sufficient to obtain moderate assurance about whether one or more conditions existed during the most recent fiscal year that would cause one or more of Federated's assertions not to be fairly stated, in all material respects.<sup>33</sup> Respondents

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<sup>26</sup> See AT 2 ¶ 2.

<sup>27</sup> See Rule 17A-5(d)(1)(i)(C) and (g)(2)(ii).

<sup>28</sup> See AT 2 ¶ 1.

<sup>29</sup> Id. ¶ 4.

<sup>30</sup> Id. ¶ 7.

<sup>31</sup> Id. ¶¶ 13-14.

<sup>32</sup> Id. ¶ 6.

<sup>33</sup> Id. ¶ 4.

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failed to perform any procedures, including inquiries, to identify exceptions to the exemption provisions as required by AT 2.<sup>34</sup>

30. Additionally, Respondents failed to obtain written representations from Federated's management required by AT 2.<sup>35</sup> The failure to obtain written representations from management constituted a limitation on the scope of the review engagement.<sup>36</sup>

### Respondents Violated PCAOB Rule 4006 and AS 3

31. PCAOB rules require that registered public accounting firms and their associated persons "shall cooperate with the Board in the performance of any Board inspection."<sup>37</sup> This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes."<sup>38</sup> When documentation is added after the documentation completion date,<sup>39</sup> PCAOB auditing standards require auditors to "indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it."<sup>40</sup> As described below, Respondents violated PCAOB Rule 4006 and AS 3.

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<sup>34</sup> Id. ¶¶ 4, 10.

<sup>35</sup> Id. ¶ 13.

<sup>36</sup> Id. ¶¶ 14, 20.

<sup>37</sup> See PCAOB Rule 4006.

<sup>38</sup> See *Nathan M. Suddeth, CPA*, PCAOB Rel. No. 105-2013-007, ¶ 4 (September 10, 2013).

<sup>39</sup> See AS 3 ¶ 15 ("[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date)." The "report release date" is "the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements." Id. ¶ 14.

<sup>40</sup> Id. ¶ 16.

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32. AS 3 requires, among other things, that prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report.<sup>41</sup> Respondents' report release date for the audit was November 20, 2014.

33. Additionally, AS 3 requires that a complete and final set of audit documentation be assembled for retention as of a date not more than 45 days after the report release date ("documentation completion date").<sup>42</sup> The documentation completion date for the audit was January 4, 2015.

34. On or before April 14, 2015, the Board notified Respondents that the Firm would be inspected. Inspection fieldwork was scheduled to start the week beginning June 22, 2015.

35. Respondents improperly created or altered documents and added them to the audit work papers after the documentation completion date and without making any disclosures required by AS 3. These documents did not exist, in any form, at the time of the audit. These misleading documents were made available to the Board's inspectors in connection with the Firm's inspection.

36. Specifically, the misleading documents consisted of several audit work papers including a final analytical review, a working trial balance, and numerous audit programs. Both the final analytical review and working trial balance work papers had print dates in April 2015, more than three months after the documentation completion date and just a few days after being notified of the Board's upcoming inspection. Similarly, the audit programs covering the entire audit were added after the documentation completion date in or about April 2015.

37. At no time did Respondents advise the Board's inspectors that the documents were created or altered shortly before, and in anticipation of, the Board's inspection. This conduct violated PCAOB Rule 4006.

38. As noted previously, when information is added to audit documentation after the report release date, AS 3 requires the auditor to indicate the date the information was added, the name of the person who prepared the additional

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<sup>41</sup> Id. ¶ 15.

<sup>42</sup> Id.

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documentation, and the reason for adding it.<sup>43</sup> With respect to the added work papers, Respondents failed to indicate the dates that the alterations and additions were made to the documents, the names of the person making the alterations and additions, and the reason for making the alterations and additions after the documentation completion date. This conduct failed to comply with AS 3.

### The Firm Violated PCAOB Rules 2200 and 2202

39. Pursuant to Section 102(d) of the Act, PCAOB Rule 2200 provides that "[e]ach registered public accounting firm must file with the Board an annual report[.]" PCAOB Rule 2201, *Time for Filing of Annual Report*, states that the deadline for filing the annual report is June 30 of each year. In violation of Section 102(d) of the Act and PCAOB Rule 2200, the Firm failed to file an annual report for 2016.

40. Pursuant to Section 102(f) of the Act, PCAOB Rule 2202 provides that "[e]ach registered public accounting firm must pay an annual fee to the Board on or before July 31" of any year that the firm is required to file an annual report. In violation of PCAOB Rule 2202, the Firm failed to pay its annual fee for 2016.

## IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Tamas B. Revai, CPA, and Tamas B. Revai, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Tamas B. Revai, CPA is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>44</sup>

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<sup>43</sup> Id. ¶ 16.

<sup>44</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Revai. Section 105(c)(7)(B) of the Act provides that "[i]t shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain

**ORDER**

- C. After three (3) years from the date of this Order, Tamas B. Revai, CPA may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Tamas B. Revai, CPA is revoked; and
- E. After three (3) years from the date of this Order, Tamas B. Revai, CPA may reapply for registration by filing an application pursuant to PCAOB Rule 2101.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

December 13, 2016

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associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."