



Public Company Accounting Oversight Board

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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS )  
)  
)  
)  
) PCAOB Release No. 105-2017-019  
)  
*In the Matter of Maurice F. Wallace, CPA,* )  
)  
) March 29, 2017  
)  
*Respondent.* )  
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is (1) censuring the registered public accounting firm Maurice F. Wallace CPA ("Wallace" or "Firm"); (2) imposing upon the Firm a civil money penalty in the amount of \$7,500; and (3) in the event the Board grants any future registration application by the Firm,<sup>1</sup> (a) requiring the Firm to undertake certain remedial measures directed toward satisfying independence criteria applicable to audits of brokers and dealers and (b) prohibiting the Firm from accepting any new broker-dealer engagement clients for a period of one year from the date of this Order. The Board is imposing these sanctions on the basis of its findings that the Firm violated PCAOB rules and auditing standards in connection with an audit of a registered broker-dealer client as a result of (1) impairing its independence by (a) preparing financial statements and supporting schedules filed with the Securities and Exchange Commission ("Commission" or "SEC"), (b) preparing Financial and Operational Combined Uniform Single ("FOCUS") reports and supplemental schedules filed with the Financial Industry Regulatory Authority ("FINRA"), and (c) providing ongoing monitoring of the client's compliance with certain regulatory requirements, and (2) failing to have an engagement quality review performed.

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

<sup>1</sup> The Firm has filed a Form 1-WD seeking leave to withdraw from registration with the Board, which the Board has determined to grant as of the date of this Order.

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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 ("Act"), and PCAOB Rule 5200(a)(1) against the Firm ("Respondent").

**II.**

In anticipation of the institution of these proceedings and pursuant to PCAOB Rule 5205, Respondent submitted an Offer of Settlement ("Offer") 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 Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").<sup>2</sup>

**III.**

On the basis of Respondent's Offer, the Board finds<sup>3</sup> that:

**A. Respondent**

1. Wallace is, and at all relevant times was, a sole proprietorship organized under the laws of Maryland, with an office in Easton, Maryland, and registered with the Board pursuant to Section 102 of the Act and PCAOB rules. Wallace's sole proprietor is licensed by the Maryland Board of Public Accountancy (license no. 0004504). At all relevant times the Firm was the external auditor for the broker-dealer identified below.

**B. Summary**

2. This matter concerns Respondent's violations of PCAOB rules and standards in connection with the Firm's audit of the 2015 financial statements of registered broker-dealer client Holloway & Associates, Inc. ("Holloway"). The Firm

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<sup>2</sup> The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

<sup>3</sup> The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5), which provides that certain sanctions may be imposed in the event of (i) intentional or knowing conduct, including reckless conduct, or (ii) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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prepared Holloway's financial statements and supporting schedules for the year ended December 31, 2015 filed with the Commission. The Firm also prepared and filed with FINRA Holloway's quarterly FOCUS reports and supplemental schedules. In addition, the Firm prepared calculations on a monthly basis to monitor whether Holloway was in compliance with net capital regulatory requirements. As a result, Wallace was not independent of Holloway under auditor independence criteria established by the Commission and made applicable by Exchange Act Rule 17a-5(f)(1) to audits of brokers and dealers.<sup>4</sup> The Firm nevertheless audited the financial statements and issued an audit report that Holloway included with the financial statements it filed with the Commission. As a result, the Firm violated PCAOB Rule 3520, *Auditor Independence*, by failing to satisfy the independence criteria applicable to the engagement, including the criteria set out in Rule 2-01(c)(4)(i) and (vi) of Commission Regulation S-X, and violated AU § 220, *Independence*.<sup>5</sup>

3. The Firm also failed to have an engagement quality review performed for the audit of Holloway's December 31, 2015 financial statements. As a result, the Firm failed to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS 7"), which requires an engagement quality review and concurring approval of issuance for audit and attestation engagements conducted pursuant to PCAOB auditing standards.

**C. Respondent Violated Board Rules and Auditing Standards**

4. At all relevant times, Holloway was a broker-dealer incorporated in the state of Maryland with its principal place of business in Easton, Maryland. Holloway's public filings disclosed that it sold annuities, mutual funds, and other insurance products. Holloway claimed an exemption from Exchange Act Rule 15c3-3 (the Customer Protection Rule).<sup>6</sup> At all relevant times, Holloway was a "broker" or "dealer,"

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<sup>4</sup> Exchange Act Rule 17a-5, referenced throughout this Order as "Rule 17a-5," is found at 17 C.F.R. § 240.17a-5.

<sup>5</sup> All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant engagements. As of December 31, 2016, the PCAOB reorganized its rules and standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2016), <https://pcaobus.org/Standards/Auditing/Documents/PrintableReferenceTable.pdf>.

<sup>6</sup> 17 C.F.R. § 240.15c3-3, *Customer Protection – Reserves and Custody of Securities*.



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as defined in Section 110(3) and (4) of the Act and PCAOB Rule 1001(b)(iii) and 1001(d)(iii).

5. Rule 17a-5(d)(1) requires, among other things, that every broker or dealer registered under section 15 of the Securities Exchange Act of 1934 file annually a financial report audited by an independent public accountant. Rule 17a-5(d)(2) requires that the financial report filed by a registered broker or dealer contain, among other things, certain financial statements: a Statement of Financial Condition, a Statement of Income, a Statement of Cash Flows, a Statement of Changes in Stockholders' or Partners' or Sole Proprietor's Equity, and a Statement of Changes in Liabilities Subordinated to Claims of General Creditors. Rule 17a-5(d)(2) also requires that the financial report contain certain supporting schedules—a net capital computation, a reserve requirement computation, and information relating to possession or control requirements—as well as a reconciliation between either computation and any materially different corresponding computation in the most recent Part II or Part IIA of Form X-17A-5 filed by the broker-dealer.

6. Rule 17a-5(g) requires that an independent public accountant prepare a report based on an examination of the financial report required to be filed by the broker or dealer under Rule 17a-5(d) in accordance with PCAOB standards.

7. Rule 17a-5 also requires broker-dealers that claim an exemption from Rule 15c3-3, or the Customer Protection Rule, to prepare an exemption report.<sup>7</sup> Rule 17a-5 moreover 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>8</sup>

8. In March 2016, Holloway filed with the Commission a Form X-17A-5 Part III containing its annual financial report for the year ended December 31, 2015. Included in that filing was a report ("Audit Report") in connection with Wallace's audit of Holloway's December 31, 2015 financial statements ("Audit"). Also included in that filing was a report ("Review Report") on Wallace's review of the statements in Holloway's exemption report. Both reports were signed by Wallace and dated February 2, 2016.

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<sup>7</sup> See Rule 17a-5(d)(1)(i)(B)(2).

<sup>8</sup> See Rule 17a-5(d)(1)(i)(C) and (g)(2)(ii).

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9. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>9</sup>

Independence Violations

10. 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>10</sup>

[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>11</sup>

11. Pursuant to Rule 17a-5(f)(1), certain of the Commission's auditor independence criteria described in Rule 2-01 of Regulation S-X<sup>12</sup> apply to audits of brokers and dealers.<sup>13</sup> The applicable provisions include Rule 2-01(c)(4), which states in part:

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<sup>9</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

<sup>10</sup> See PCAOB Rule 3520; AU § 220.

<sup>11</sup> See PCAOB Rule 3520, Note 1.

<sup>12</sup> 17 C.F.R. § 210.2-01(b)-(c).

<sup>13</sup> Not all independence criteria described in Rule 2-01(c) apply to audits of brokers and dealers. As the Commission has explained, those audits "are not subject to the partner rotation requirements or the compensation requirements of the Commission's independence rules [Rules 2-01(c)(6) and (c)(8)] because the statute mandating those requirements is limited to issuers," and they "are not subject to the audit committee pre-approval requirements or the cooling-off period requirements for employment [Rules 2-01(c)(7) and (c)(2)(iii)(B)] because those requirements only reference issuers." See Exchange Act Release No. 70073 at II.E.

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An accountant is not independent if, at any point during the audit and professional engagement period, the accountant provides the following non-audit services to an audit client:

(i) *Bookkeeping or other services related to the accounting records or financial statements of the audit client.* Any service, unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements, including:

...

(B) Preparing the audit client's financial statements that are filed with the Commission or that form the basis of financial statements filed with the Commission . . . .

...

(vi) *Management functions.* Acting, temporarily or permanently, as a director, officer, or employee or an audit client, or performing any decision-making, supervisory, or ongoing monitoring function for the audit client.

12. On a monthly basis during 2015, Firm staff obtained from Holloway various documents including a prior-month-end "Balance Sheet" from Holloway's accounting system. Firm staff entered amounts on the balance sheet into a net capital worksheet that the Firm used to monitor Holloway's net capital levels and to determine whether Holloway was in compliance with applicable net capital requirements.

13. On a quarterly basis during 2015, Firm staff obtained from Holloway various documents including a quarter-end "Balance Sheet" and a "Profit & Loss" report generated from Holloway's accounting system. Firm staff used these items to prepare Holloway's quarterly FOCUS report for each of the four quarters of 2015, which included a Statement of Financial Condition for Noncarrying, Nonclearing and Certain Other Brokers or Dealers; a Computation of Net Capital; and a Statement of Income (Loss). The Firm also prepared two required supplemental schedules: a Supplemental Statement of Income and a Form Custody for Broker-Dealers. In preparing each quarterly FOCUS report and supplemental schedule, Firm staff calculated the amounts for various line items and aggregated multiple line items. Firm staff then filed each of those quarterly FOCUS reports and supplemental schedules with FINRA on Holloway's behalf.





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14. In January and February 2016, Firm staff obtained from Holloway, among other items, a "Balance Sheet" as of December 31, 2015; a "Balance Sheet" comparing account balances as of December 31, 2015 with corresponding balances as of December 31, 2014; and a "Profit & Loss" report for the year ended December 31, 2015.

15. Firm staff used the documents obtained from Holloway to prepare Statements of Financial Condition and Changes in Ownership Equity as of December 31, 2015, a Statement of Income (Loss) for the year ended December 31, 2015, and a Computation of Net Capital as of December 31, 2015, all of which were filed by Holloway with the Commission. In preparing these financial statements and supporting schedule, Wallace and the Firm's staff aggregated line items and changed line item descriptions and captions as compared to corresponding information in the documents obtained from Holloway.

16. Moreover, Firm staff prepared a Statement of Cash Flows for the year ended December 31, 2015, notes to the financial statements, and supporting schedules reconciling the amounts in the Statement of Changes in Ownership Equity and the Computation of Net Capital with corresponding amounts in a previously filed FOCUS report. All of these were filed by Holloway with the Commission.

17. Firm staff provided Holloway with draft financial statements, including notes, and draft supporting schedules in February 2016 for management approval.

18. As a result of the Firm's conduct in preparing Holloway's financial statements and supporting schedules filed with the Commission,<sup>14</sup> the Firm was not independent of Holloway under the independence criteria established by the Commission in Rule 2-01(c)(4) of Regulation S-X, which Rule 17a-5 made applicable to the Audit. As the Commission explained in adopting Rule 2-01(c)(4), providing such services for an audit client "impairs the auditor's independence because the auditor will be placed in the position of auditing the firm's work when auditing the client's financial statements. . . . In addition, keeping the books is a management function, the performance of which leads to an inappropriate mutuality of interests between the

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<sup>14</sup> Wallace's preparation of the supporting schedules accompanying Holloway's SEC-filed financial statements constituted "[b]ookkeeping or other services related to the accounting records or financial statements of the audit client" within the meaning of Rule 2-01(c)(4)(i) and accordingly was a non-audit service inconsistent with auditor independence.

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auditor and the audit client."<sup>15</sup> Moreover, the Firm's preparation and filing of Holloway's quarterly FOCUS reports and supplemental schedules and its monitoring of Holloway's compliance with net capital requirements also caused it not to be independent of Holloway under the independence criteria of Rule 2-01(c)(4).<sup>16</sup> The Firm accordingly violated PCAOB Rule 3520 and AU § 220 in connection with the Audit.

Engagement Quality Review Violation

19. AS 7 requires that an engagement quality review be performed on all audits conducted pursuant to PCAOB standards and on certain attestation engagements, including engagements performed pursuant to Attestation Standard No. 2, *Review Engagements Regarding Exemption Reports of Brokers and Dealers* ("AT 2").<sup>17</sup> AS 7 also provides that a firm may grant permission to a client to use the engagement report only after an engagement quality reviewer provides concurring approval of issuance of the report.<sup>18</sup>

20. The Firm failed to obtain an engagement quality review for the Audit and the attestation engagement performed pursuant to AT 2, and improperly permitted the issuance of the Audit Report and Review Report—which were included in Holloway's filing with the Commission—without obtaining an engagement quality review and concurring approval of issuance in violation of AS 7.

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<sup>15</sup> *Revision of the Commission's Auditor Independence Requirements*, Exchange Act Release No. 43602 (November 21, 2000) at IV.D.4.b(i).

<sup>16</sup> Wallace's preparation and filing of quarterly FOCUS reports and its monitoring of Holloway's compliance with applicable net capital rules constituted "[a]cting, temporarily or permanently, as a director, officer, or employee of an audit client, or performing any decision making, supervisory or ongoing monitoring function for the audit client" within the meaning of Rule 2-01(c)(4)(vi) and accordingly were non-audit services inconsistent with auditor independence. *See Rosenberg Rich Baker Berman & Company*, Exchange Act Release No. 69765, 2013 WL 2898032, at \*3-\*4 (June 14, 2013) (firm and firm partner lacked independence from broker-dealer audit client where partner performed and directed a staff accountant to perform Financial and Operations Principal services for broker-dealer client including preparing and filing with FINRA the broker-dealer's FOCUS reports and calculating the broker-dealer's net capital).

<sup>17</sup> See AS 7 ¶ 1.

<sup>18</sup> Id. ¶¶ 13, 18, 18C.



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**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 Respondent's Offer.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), the Firm is censured.
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$7,500 is imposed upon the Firm. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. The Firm shall pay the civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the Firm as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.
- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm, should the Board grant any future application of the Firm for registration, is required:
  - 1. within ninety (90) days from the date the Board grants any future application of the Firm for registration ("Future Registration Date"), to establish policies and procedures, or revise and/or supplement existing policies and procedures, for the purpose of providing the Firm with reasonable assurance of compliance with (a) applicable independence requirements, including those requirements of Rule 2-01 of Regulation S-X applicable to an SEC Registered Broker-Dealer Engagement (defined to mean an engagement to provide a report—whether an audit report, an

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examination report, or a review report—required under paragraph (d)(1)(i)(C) of Rule 17a-5, as amended); and (b) AS 1220, *Engagement Quality Review*;

2. within ninety (90) days from the Future Registration Date, to establish a policy of ensuring training, whether internal or external, on an annual or more frequent regular basis, of any Firm audit personnel who participate in any way in the planning or performing of any SEC Registered Broker-Dealer Engagement, concerning (a) applicable independence requirements, including those requirements of Rule 2-01 of Regulation S-X applicable to an SEC Registered Broker-Dealer Engagement; and (b) AS 1220;

3. within ninety (90) days from the Future Registration Date, and before the Firm's commencement of any SEC Registered Broker-Dealer Engagement (or, where the Firm by the date of this Order has already commenced but not completed such an engagement, before the Firm's release of its report), to ensure training pursuant to the policy described in paragraph C(2) above on at least one occasion;

4. to provide a copy of this Order—

a. within thirty (30) days from Future Registration Date, to all audit personnel employed by, or associated with (as defined in PCAOB Rule 1001(p)(i)), the Firm as of the Future Registration Date,

b. within thirty (30) days from the Future Registration Date, to any client of the Firm as of the date of the Future Registration Date for which the Firm has performed or has been engaged to perform an SEC Registered Broker-Dealer Engagement,

c. before the commencement of any SEC Registered Broker-Dealer Engagement, to any future client for which the Firm is engaged within three (3) years of the date of this Order to perform such an engagement; and

5. to certify in writing to the Director of the Division of Enforcement and Investigations, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, the Firm's compliance with paragraphs C(1) through C(4)(b) above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to

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demonstrate compliance. The Firm shall submit such certification within one hundred twenty (120) days from the Future Registration Date. The Firm shall also submit such additional evidence of and information concerning compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

- D. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), the Firm, should the Board grant any future application of the Firm for registration, is prohibited from accepting any new SEC Registered Broker-Dealer Engagement clients for a period of one year from the date of this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

March 29, 2017