

# PCAOB

Public Company Accounting Oversight Board

1666 K Street, N.W.  
Washington, DC 20006  
Telephone: (202) 207-9100  
Facsimile: (202) 862-0757  
www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS

*In the Matter of SEJONG LLP,*

*Respondent.*

PCAOB Release No. 105-2017-020

March 29, 2017

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is (1) censuring the registered public accounting firm SEJONG LLP ("Sejong" or "Firm"); (2) imposing upon the Firm a civil money penalty in the amount of \$5,000; (3) requiring the Firm to undertake certain remedial measures, including to establish policies and procedures directed toward satisfying independence criteria applicable to audits of brokers and dealers; and (4) 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 preparing for that client its financial statements and a supporting schedule that were filed with the Securities and Exchange Commission ("Commission" or "SEC"), which impaired the Firm's independence.

**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 ("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

**ORDER**

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>1</sup>

**III.**

On the basis of Respondent's Offer, the Board finds<sup>2</sup> that:

**A. Respondent**

1. Sejong is, and at all relevant times was, a limited liability partnership organized under the laws of the state of New York, with offices in Fort Lee, New Jersey and New York, New York, and registered with the Board pursuant to Section 102 of the Act and PCAOB rules. Sejong is licensed by the New Jersey State Board of Accountancy (license no. 20CB00639400) and the North Carolina State Board of Certified Public Accountant Examiners (certificate no. 33546) and registered with the New York State Education Department (Certified Public Accountancy Partnership No. 050709). At all relevant times the Firm was the external auditor for the broker-dealer identified below.

**B. Summary**

2. This matter concerns Respondent's violation of PCAOB rules and standards in connection with the Firm's audit of the 2014 financial statements of registered broker-dealer client Daewoo Securities (America) Inc. ("Daewoo"). The Firm prepared Daewoo's financial statements and a supporting schedule for the year ended December 31, 2014 filed with the Commission. As a result, Sejong was not independent of Daewoo 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>3</sup>

---

<sup>1</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>2</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.

<sup>3</sup> Exchange Act Rule 17a-5, referenced throughout this Order as "Rule 17a-5," is found at 17 C.F.R. § 240.17a-5.

## ORDER

The Firm nevertheless audited the financial statements and issued an audit report that Daewoo 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) of Commission Regulation S-X, and violated AU § 220, *Independence*.<sup>4</sup>

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

3. At all relevant times, Daewoo was a broker-dealer incorporated in the state of New York with its principal place of business in New York, New York. Daewoo's public filings disclosed that it was a wholly owned subsidiary of a Korean corporation, Daewoo Securities Co., Ltd.; engaged primarily in broker and dealer transactions of Korean securities on behalf of institutional investors in the United States; and also engaged in broker and dealer transactions of United States securities on behalf of institutional customers in Korea. Daewoo claimed an exemption from Exchange Act Rule 15c3-3 (the Customer Protection Rule).<sup>5</sup> At all relevant times, Daewoo was a "broker" or "dealer," as defined in Section 110(3) and (4) of the Act and PCAOB Rule 1001(b)(iii) and 1001(d)(iii).

4. 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

---

<sup>4</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 audit. 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>5</sup> 17 C.F.R. § 240.15c-3-3, *Customer Protection – Reserves and Custody of Securities*.

**ORDER**

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.

5. 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.

6. 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>6</sup> PCAOB rules and standards also 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>7</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>8</sup>

7. 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>9</sup> apply to audits of brokers and dealers.<sup>10</sup> The applicable provisions include Rule 2-01(c)(4), which states in part:

---

<sup>6</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards* (reorganized as PCAOB Rule 3200, *Auditing Standards*).

<sup>7</sup> See PCAOB Rule 3520; AU § 220.

<sup>8</sup> See PCAOB Rule 3520, Note 1.

<sup>9</sup> 17 C.F.R. § 210.2-01(b)-(c).

<sup>10</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

**ORDER**

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 . . . .

8. In March 2015, Daewoo filed with the Commission a Form X-17A-5 Part III containing its annual financial report for the year ended December 31, 2014. Included in that filing was a report signed by Sejong and dated February 26, 2015 ("Audit Report") in connection with Sejong's audit of Daewoo's December 31, 2014 financial statements ("Audit").

9. In November 2014, Firm staff completed an "Engagement Acceptance and Continuance Form" in connection with the Audit. That form included pre-printed text reading:

The SEC expects accountants to comply with the independence requirements established by the PCAOB, Independence Standards Board, and the accounting profession (the AICPA), as well as the requirements promulgated by the Commission and its staff. The SEC's independence rules are set forth in Rule 2-01 of Regulation S-X. Rule 2-01's general standard of independence requires both the fact and the appearance of independence.

---

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.



## ORDER

10. In February 2015, Firm staff obtained from Daewoo various documents including a "Balance Sheet" as of December 31, 2014, a "Profit & Loss" report for January through December 2014, and a trial balance as of December 31, 2014.

11. Firm staff used the documents obtained from Daewoo to prepare the Statement of Financial Condition and Net Capital Computation as of December 31, 2014, as well as the Statements of Income, Changes in Stockholder's Equity, and Cash Flows for the year ended December 31, 2014, filed by Daewoo with the Commission in March 2015.

12. In preparing the Statements of Financial Condition and Income filed by Daewoo with the Commission, Firm staff added and aggregated line items, changed line item descriptions and a line item amount, and changed captions as compared to corresponding information in the documents obtained from Daewoo.

13. Moreover, Firm staff prepared the Statements of Cash Flow and Changes in Stockholder's Equity for the year ended December 31, 2014; the Net Capital Computation as of December 31, 2014; and the notes to the financial statements by updating the notes to Daewoo's financial statements for the prior year. All of these were filed by Daewoo with the Commission in March 2015.

14. Firm staff emailed Daewoo draft financial statements, including notes, and a draft Net Capital Computation in February 2015 for management approval.

15. As a result of Sejong's conduct in preparing the financial statements and supporting schedule,<sup>11</sup> the Firm was not independent of Daewoo 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

---

<sup>11</sup> The preparation of Daewoo's Net Capital Computation 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.

**ORDER**

mutuality of interests between the auditor and the audit client."<sup>12</sup> The Firm consequently violated PCAOB Rule 3520 and AU § 220 in connection with the Audit.

**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 \$5,000 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 this 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 is required:
  - 1. within ninety (90) days from the date of this Order, to establish policies and procedures, or revise and/or supplement existing

---

<sup>12</sup> *Revision of the Commission's Auditor Independence Requirements*, Exchange Act Release No. 43602 (November 21, 2000) at IV.D.4.b(i).

**ORDER**

policies and procedures, for the purpose of providing the Firm with reasonable assurance of compliance with 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 examination report, or a review report—required under paragraph (d)(1)(i)(C) of Rule 17a-5, as amended);

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

3. within ninety (90) days from the date of this Order 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 the date of this Order, to all audit personnel employed by, or associated with (as defined in PCAOB Rule 1001(p)(i)), the Firm as of the date of this Order,

b. within thirty (30) days from the date of this Order, to any client of the Firm as of the date of this Order 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



**ORDER**

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 demonstrate compliance. The Firm shall submit such certification within one hundred twenty (120) days from the date of this Order. 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 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

---

Phoebe W. Brown  
Secretary

March 29, 2017