
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS,
AND IMPOSING SANCTIONS

In the Matter of Deloitte Anjin LLC,

Respondent.

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) PCAOB Release No. 105-2019-025
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) October 31, 2019
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring Deloitte Anjin LLC ("Deloitte Korea," "Firm," or "Respondent"), a registered public accounting firm; (2) imposing a civil money penalty of \$350,000 on the Firm; and (3) requiring the Firm to undertake certain remedial measures. In ordering these sanctions, the Board took into account the Firm's extraordinary cooperation in this matter, including self-reporting, substantial assistance, and personnel and policy actions, and as described in more detail below.

The Board is imposing these sanctions on the basis of its findings that, in connection with a 2014 Board inspection of the 2013 audit of an issuer client, Deloitte Korea's system of quality control failed to provide reasonable assurance that Firm personnel performed all professional responsibilities with integrity and that the work they performed met applicable professional standards and regulatory requirements.

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 Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has 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

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consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.¹

III.

On the basis of Respondent's Offer, the Board finds that:

A. Respondent

1. Deloitte Anjin LLC is a limited liability corporation based in the Republic of Korea ("South Korea") with its single office in Seoul. The Firm is licensed to practice public accountancy by the Korean Ministry of Finance and Economy (Registration No. 66). The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB rules since July 13, 2004. The Firm is a member of the Deloitte Touche Tohmatsu Limited global network. At all relevant times, the Firm was the external auditor for Issuer A.

B. Issuer A and Relevant Persons

2. Issuer A is a financial services company based in South Korea with American Depositary Shares listed on the New York Stock Exchange. Issuer A is structured as a holding company ("Holding Company") with numerous subsidiaries. Issuer A holds most of its assets in, and derives most of its revenue from, its largest subsidiary ("Subsidiary"). At all relevant times, Issuer A was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

3. Seul Hyang Wee ("Wee")² is a former partner of Deloitte Korea. At all relevant times, Wee was responsible for the audit of the 2013 consolidated financial statements and internal control over financial reporting ("ICFR") of the Holding Company ("2013 Audit"). Wee authorized the issuance of Deloitte Korea's report on the 2013 Audit containing an unqualified opinion. The audit report was included in a Form 20-F filed with the U.S. Securities and Exchange Commission.

4. Hyun Seung Lee ("Lee")³ is a former partner of Deloitte Korea. At all relevant times, Lee was responsible for the audit procedures performed on the 2013 financial statements and ICFR of the Subsidiary ("Subsidiary Work") as part of the consolidated 2013 Audit. The Subsidiary Work was an integral part of the 2013 Audit

¹ The findings herein are made pursuant to Respondent's Offer and are not binding on any other persons or entities in this or any other proceeding.

² See *In the Matter of Seul Hyang Wee*, PCAOB Release No. 105-2019-026 (October 31, 2019).

³ See *In the Matter of Hyun Seung Lee*, PCAOB Release No. 105-2019-027 (October 31, 2019).

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given the significance of the Subsidiary's assets and revenue to the Holding Company and its financial statements.

C. Summary

5. This matter concerns Deloitte Korea's failure to design and implement appropriate quality control policies and procedures to provide it with reasonable assurance that its engagement personnel performed professional services with integrity. The Firm also failed to design and implement adequate policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel met applicable professional standards and regulatory requirements. These failures resulted in violations of PCAOB standards by Firm personnel, who backdated and improperly altered audit documentation for the 2013 Audit.

6. During the 2013 Audit, Firm personnel backdated their sign-offs on numerous electronic work papers to conceal the fact that they were continuing to perform audit procedures after the Firm had issued its audit report. Additionally, after the Firm received notification from PCAOB staff that the 2013 Audit had been selected for inspection, and following the date on which the Firm had to finalize its documentation for the audit, Firm personnel improperly altered a number of hard-copy work papers by adding descriptions of audit procedures. The Firm then provided the backdated electronic work papers and the improperly altered hard-copy work papers to PCAOB inspectors during their inspection of the Firm in 2014.

D. The Firm Violated PCAOB Quality Control Standards

7. PCAOB rules⁴ require a registered public accounting firm to comply with all applicable auditing and related professional practice standards, including the Board's quality control standards.⁵ PCAOB quality control standards require a registered public accounting firm to have a system of quality control for its accounting and auditing practice. The system should include policies and procedures to provide the firm with

⁴ All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant conduct. As of December 31, 2016, the PCAOB reorganized its auditing 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 (March 31, 2015); *see also PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017).

⁵ *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, PCAOB Rule 3200T, *Interim Auditing Standards*, and PCAOB Rule 3400T, *Interim Quality Control Standards*.

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reasonable assurance that personnel perform all professional responsibilities with integrity.⁶

8. PCAOB rules further require a registered public accounting firm to establish and implement policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.⁷

9. On March 25, 2014, PCAOB inspection staff informed Deloitte Korea that it would be inspecting the Firm and planned to start inspection fieldwork at the Firm's office in Seoul on July 14, 2014. At the time, Deloitte Korea served as the principal auditor of two issuer clients and performed referred audit work in connection with other issuers. The 2013 Audit had the most personnel assigned and the most hours recorded of all these engagements, and Issuer A was the larger of Deloitte Korea's two issuer clients by market capitalization. Based on those considerations, Deloitte Korea and personnel assigned to the 2013 Audit believed that the 2013 Audit would be selected for review by PCAOB inspection staff.

10. On April 30, 2014, Wee authorized the issuance of Deloitte Korea's audit report on Issuer A's consolidated financial statements as of and for the year ended, and internal control over financial reporting as of, December 31, 2013. The audit report was included in a Form 20-F filed with the U.S. Securities and Exchange Commission.

11. After the audit report was issued, Wee, Lee, and other Firm personnel continued to prepare and review audit work papers. In addition, certain Firm personnel continued to perform audit procedures that had been planned but not completed by the time of the issuance of the audit report.

12. Wee, Lee, and other Firm personnel backdated the preparation and review dates on several electronic work papers. They applied preparation and review dates that were earlier than the actual dates to conceal the post-issuance performance of procedures and, in those cases where procedures had been performed prior to issuance, to conceal the post-issuance preparation or review of the work papers themselves.⁸ This backdating was widespread among the Firm personnel assigned to the 2013 Audit. The

⁶ QC § 20.01, .09, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁷ QC § 20.17.

⁸ Some of the Firm's personnel used Firm audit software that allowed them to select a date to apply to the electronic work papers other than the date of the actual sign-off, while others rolled back the clock on their computers to a date and time of their own choosing.

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backdated electronic work papers failed to comply with PCAOB audit documentation requirements.⁹

13. On June 9, 2014, PCAOB inspection staff notified Deloitte Korea that it had selected the 2013 Audit for review.

14. Deloitte Korea was required to assemble a final and complete set of audit documentation for the 2013 Audit no later than June 14, 2014.¹⁰ The Firm archived a final set of work papers for the 2013 Audit by that date—the hard-copy work papers on June 13, and the electronic work papers on June 14, 2014. Beginning on June 20, 2014, and over the next several days, personnel assigned to the Subsidiary Work improperly altered a number of hard-copy work papers. These personnel added handwritten descriptions of procedures relating to Subsidiary internal controls. Because this documentation was added after the documentation completion date and did not indicate the date it was added, the name of the person who prepared it, or the reason for adding it, the altered hard-copy work papers failed to comply with PCAOB audit documentation requirements.¹¹

15. Wee and Lee were aware of the efforts by personnel assigned to the Subsidiary Work to improperly alter the hard-copy work papers after the documentation completion date. Yet, despite that knowledge, Wee and Lee took no action to stop those efforts or report them to PCAOB inspection staff or the Firm's senior management.

⁹ Paragraph 6 of Auditing Standard No. 3, *Audit Documentation* ("AS 3"), requires audit documentation, among other things, to "contain sufficient information to enable an experienced auditor, having no previous connection with the engagement," to understand the "timing" and "extent" of the procedures performed, evidence obtained, and conclusions reached, as well as to "determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review."

¹⁰ Paragraph 15 of AS 3 requires that a complete and final set of audit documentation be assembled for retention by the "documentation completion date," a date no later than 45 days from the date on which the auditor grants permission to use the audit report.

¹¹ Paragraph 16 of AS 3 requires that any documentation added after the documentation completion date "must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it."

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16. On or about July 14, 2014, the first day of the PCAOB inspection, the Firm provided the backdated electronic work papers and the improperly altered hard-copy work papers to the inspectors.

17. From July 14 through July 24, 2014, Wee, Lee, and other Firm personnel met on multiple occasions with the PCAOB inspectors to discuss the 2013 Audit. None of the Firm personnel, including the two partners, informed the inspectors of the backdating of electronic work papers or the efforts to alter the hard-copy work papers after the documentation completion date. The conduct of these personnel was inconsistent with the obligation to cooperate with the Board's inspection.¹²

18. As a result of the conduct described above, Deloitte Korea violated PCAOB quality control standards. Specifically, the Firm's quality control policies and procedures failed to provide reasonable assurance that (i) firm personnel performed all professional responsibilities with integrity; and (ii) that the work performed by engagement personnel met applicable professional standards and regulatory requirements.

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.

In ordering sanctions, the Board took into account the Firm's extraordinary cooperation in this matter. Specifically, the Firm: (a) voluntarily and timely self-reported the misconduct described in this Order;¹³ (b) provided substantial assistance to the PCAOB's investigation, including by conducting its own extensive internal investigation and sharing the results of that internal investigation with Board staff; (c) separated from the Firm certain personnel identified by the Firm as responsible for the misconduct; and (d) implemented enhancements to its quality control policies and procedures in relevant areas. Absent that extraordinary cooperation, the civil money penalty imposed would

¹² See PCAOB Rule 4006, *Duty to Cooperate with Inspectors*. That duty to cooperate includes an obligation to provide accurate and truthful information. *Kabani & Company, Inc.*, Exchange Act Release No. 80201, at 13-14 (March 10, 2017) (sustaining Board finding that respondents failed to cooperate with inspection where improper work paper alterations "interfered with the PCAOB's ability to fulfill its regulatory function of ensuring that auditors comply with their professional responsibilities"), petition for review denied, 733 Fed. Appx. 918 (9th Cir. 2018); see also *DRT Bagimsiz Denetim ve Serbest Muhasebeci Mali Musavirlik A.Ş.*, PCAOB Release No. 105-2017-050 (December 19, 2017).

¹³ The Firm received anonymous allegations relating to the misconduct described herein and promptly reported those allegations to PCAOB staff.

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have been significantly larger, and the Board may have charged the Firm with additional violations of PCAOB rules and standards. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Deloitte Anjin LLC is hereby 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 \$350,000 is imposed upon Deloitte Anjin LLC. 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. Deloitte Anjin LLC shall pay this civil money penalty within 10 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service postal money order, certified check, bank cashier's check or bank money order (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 Deloitte Anjin LLC 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;
- C. Pursuant to Section 105(c)(4)(F) and (G) of the Act and PCAOB Rule 5300(a)(6) and (9), Deloitte Anjin LLC is required:
 1. no later than 30 days after the date of this Order, provide an electronic or paper copy of this Order (along with a Korean language translation) to all of its associated persons;
 2. within 90 days from the date of this Order, to establish policies and procedures, or review and/or supplement existing policies and procedures, including monitoring procedures, for the purpose of providing the Firm with reasonable assurance of compliance with documentation requirements applicable to issuer audits, including with respect to the dating, assembly, addition, modification, and deletion of audit documentation;
 3. within 90 days from the date of this Order, to ensure that all professionals involved in any audit, as that term is defined in Section 110(1) of the Act, have received four (4) hours of additional training concerning compliance with PCAOB auditing standard AS 1215 (formerly AS 3), *Audit Documentation*, PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, and the obligation to perform all professional responsibilities with integrity;

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4. 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(3) 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; and

5. for two (2) years from the date of this Order:

(a) to promptly report to the Board any allegation of improper document alterations in connection with (i) the Firm's system of quality control, (ii) any audit subject to the PCAOB's jurisdiction or (iii) any PCAOB inspection or investigation; and

(b) within one week after being notified that the Firm will be inspected, (i) to notify all professionals involved in any audit, as that term is defined in Section 110(1) of the Act, of the inspection, and (ii) to specifically instruct such professionals and all other personnel involved in any way in the inspection or inspection-related activity of their obligation to cooperate with Board inspections, including by not preparing or making available to the Board's inspectors documents containing misleading information.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

October 31, 2019