

ORDER**III.**

On the basis of Respondent's Offer, the Board finds that:³

A. Respondent

1. Hyun Seung Lee, age 48, is a certified public accountant licensed in the Republic of Korea ("South Korea") by the Korean Institute of Certified Public Accountants (registration no. 4799). Until October 2017, Lee was a partner at Deloitte Anjin LLC ("Deloitte Korea" or "Firm"),⁴ a firm based in South Korea with its single office in Seoul. During the relevant period, Lee was the partner responsible for the audit procedures performed on the 2013 financial statements and internal control over financial reporting of Issuer A's largest subsidiary. Lee 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. Issuer A

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, the largest of which holds most of its assets and generates most of its revenue ("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).

C. Summary

3. This matter concerns Lee's failure to cooperate with a Board inspection and to comply with PCAOB audit documentation requirements. In connection with the 2013 audit of Issuer A ("2013 Audit"), Lee and other Firm audit personnel who performed audit procedures concerning the Subsidiary ("Subsidiary Auditors") backdated electronic audit work papers. They did so to conceal that certain Subsidiary-related procedures were performed after the audit report on the Holding Company's consolidated financial statements had been issued. Lee was also aware that Subsidiary Auditors improperly altered a number of hard-copy work papers related to the Subsidiary in advance of a

³ The Board finds that Respondent's 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.

⁴ See *In the Matter of Deloitte Anjin LLC*, PCAOB Release No. 105-2019-025 (October 31, 2019).

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scheduled PCAOB inspection. Lee took no action to stop the misconduct or to report it to senior management. Moreover, during the Board's inspection, Lee met several times with PCAOB inspectors to discuss audit procedures concerning the Subsidiary. Lee never disclosed to the inspectors that electronic work papers had been backdated or that hard-copy work papers had been improperly altered.

D. Respondent Violated PCAOB Rules and Standards

4. In connection with the preparation or issuance of an audit report, PCAOB rules require that associated persons of registered public accounting firms comply with applicable auditing and related professional practice standards.⁵ Auditing Standard No. 3, *Audit Documentation* ("AS 3"), requires that audit documentation "contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:

- a. To understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and
- b. 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."⁶

Any documentation added after the documentation completion date⁷ "must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it."⁸

⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*. 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).

⁶ AS 3 ¶ 6.

⁷ 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.

⁸ AS 3 ¶16.

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5. PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, requires registered firms and their associated persons to cooperate with inspections conducted by the Board. "Implicit in this cooperation requirement is that auditors provide accurate and truthful information."⁹

6. 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, the Firm, Lee, and others assigned to Subsidiary-related work for the 2013 Audit believed that the 2013 Audit would be selected for review by PCAOB inspection staff.

7. As the partner assigned to supervise the Subsidiary work performed as part of the 2013 Audit, Lee was responsible to oversee the planning and performance of Subsidiary-related audit procedures. The engagement was structured such that the engagement partner directly supervised the audit of the Holding Company, while other Firm partners supervised the audits of several components of the Holding Company—including that of the Subsidiary, which was supervised by Lee.

8. The financial statements of the Subsidiary were significant to the consolidated financial statements of Issuer A. The Subsidiary's revenue constituted most of Issuer A's revenue, and the Subsidiary's assets totaled approximately 69 percent of Issuer A's consolidated assets. The audit procedures performed by Lee and other Subsidiary Auditors were an integral part of the 2013 Audit.

9. On April 30, 2014, Deloitte Korea issued an 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.

10. After the audit report was issued, Lee and the Subsidiary Auditors continued to perform audit procedures that had been planned but not completed by the time the Firm issued the audit report. Lee and the Subsidiary Auditors applied preparation and

⁹ *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 Rel. No. 105-2017-050 (December 19, 2017).

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review dates to the electronic work papers that were earlier than the actual dates when the work was performed 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 those electronic work papers. The procedures performed after issuance and reflected in backdated work papers included procedures related to the valuation of the Subsidiary's derivatives and unlisted securities. Because the backdated electronic work papers misrepresented the timing of audit procedures, they failed to comply with AS 3,¹⁰ and by participating in the backdating, Lee violated AS 3.

11. On June 9, 2014, PCAOB inspection staff notified Deloitte Korea that it had selected the 2013 Audit for review. Shortly thereafter, Firm personnel—including Lee and the Subsidiary Auditors—learned that the 2013 Audit had been selected by the PCAOB for inspection.

12. Deloitte Korea was required to assemble a final and complete set of audit documentation for the 2013 Audit no later than June 14, 2014. 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, a number of Subsidiary Auditors improperly altered several hard-copy work papers by adding handwritten descriptions of procedures relating to the Subsidiary's internal controls over (i) valuation of unlisted securities and (ii) loan receivables.

13. Lee received emails sent among the Subsidiary Auditors concerning efforts to improperly alter Subsidiary-related hard-copy work papers in advance of the PCAOB inspection and after the documentation completion date. In one such email dated June 20, 2014, one of the Subsidiary Auditors listed 13 internal controls related to the Subsidiary's loan allowance and, for each of those controls, specified certain items that should be added to the control descriptions contained in the hard-copy work papers. Lee was aware that Subsidiary Auditors added the handwritten descriptions to the hard-copy work papers without documenting when, why, and by whom they were added. But Lee took no action to stop the misconduct or to report it to the Firm's senior management. As a result, Lee again violated AS 3.

14. Lee was aware that on or about July 14, 2014, the first day of the PCAOB inspection, the Firm provided backdated electronic work papers and improperly altered hard-copy work papers to the inspectors. Moreover, from July 14 through July 24, 2014, Lee met on several occasions with PCAOB inspectors to discuss the 2013 Audit. At some of those meetings, the PCAOB inspectors and Lee reviewed work papers and discussed audit procedures concerning the Subsidiary. Lee failed to disclose to the inspectors during any of those meetings that electronic work papers had been backdated or that hard-copy work papers had been improperly altered. As a result, Lee violated PCAOB Rule 4006.

¹⁰ AS 3 ¶ 6.

ORDER**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), Hyun Seung Lee is hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Hyun Seung Lee 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);¹¹
- C. After two (2) years from the date of this Order, Hyun Seung Lee may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed. 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. Hyun Seung Lee 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 Hyun Seung Lee 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:

¹¹ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Lee. 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 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."

ORDER

Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

October 31, 2019