
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS,
AND IMPOSING SANCTIONS

In the Matter of CST Group, CPAs, P.C.,

Respondent.

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) PCAOB Release No. 105-2015-014

) July 9, 2015
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is (1) censuring the registered public accounting firm CST Group, CPAs, P.C. ("CST Group," "Firm," or "Respondent"); (2) imposing upon the Firm a civil money penalty in the amount of \$7,500; and (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. The Board is imposing these sanctions on the basis of its findings that the Firm violated a rule of the Securities and Exchange Commission ("Commission") in connection with two audits of a broker-dealer client as a result of preparing financial statements that the broker-dealer filed with the Commission and thus impairing 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 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,

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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. CST Group is a registered public accounting firm located in Reston, Virginia. At all relevant times, the Firm was licensed by the Virginia Board of Accountancy (license no. 50317). The Firm, formed in 1973, is registered with the Board pursuant to Section 102 of the Act and Board rules.

B. Summary

2. CST Group prepared the financial statements for a broker-dealer audit client ("Broker-Dealer") for the years ended December 31, 2012 and December 31, 2013. As a result, the Firm was not independent of the Broker-Dealer under auditor independence criteria established by the Commission and made applicable by Exchange Act Rule 17a-5(f)(3) to audits of brokers and dealers.² The Firm nevertheless audited both sets of financial statements and issued audit reports that the Broker-Dealer included with the financial statements it filed with the Commission. In each of the audit reports, the Firm represented that the audit had been performed in accordance with Generally Accepted Auditing Standards ("GAAS"). Because GAAS requires independence, however, each of those representations violated Rule 17a-5(i), which required the audit report to state whether the audit was made in accordance with GAAS.

¹ 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.

² Exchange Act Rule 17a-5, referenced throughout this Order as "Rule 17a-5," is found at 17 C.F.R. § 240.17a-5. The rule provisions set out herein are those in effect during, and applicable to, the relevant conduct. On July 30, 2013, the Commission adopted certain amendments to Rule 17a-5. See Broker-Dealer Reports, SEC Exchange Act Release No. 34-70073 (July 30, 2013), 78 Fed. Reg. 51910 (Aug. 21, 2013). Among other things, the amendments to Rule 17a-5 require that audits of brokers and dealers be performed in accordance with PCAOB standards, effective for audits of fiscal years ending on or after June 1, 2014. In addition, Rule 17a-5 provides that the auditor must be independent in accordance with Rule 2-01 of Commission Regulation S-X. At the time of the relevant conduct, that requirement was set out in Rule 17a-5(f)(3). It is now set out in Rule 17a-5(f)(1).



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C. Respondent Violated a Commission Rule

3. Rule 17a-5(d)(1) requires, among other things, that "[e]very broker or dealer registered pursuant to section 15 of the [Securities Exchange] Act [of 1934] shall file annually, on a calendar or fiscal year basis, a report which shall be audited by an independent public accountant." Rule 17a-5(d)(2) states that "[t]he annual audited report" filed by a registered broker or dealer, among other things, "shall contain 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."

4. Rule 17a-5(e)(1)(i) states: "An audit shall be conducted by a public accountant who shall be in fact independent as defined in paragraph (f)(3) of this section herein, and he shall give an opinion covering the statements filed pursuant to paragraph (d)" Rule 17a-5(f)(3) states: "An accountant shall be independent in accordance with the provisions of § 210.2-01(b) and (c) of this chapter."

5. Rule 17a-5(g) requires that "[t]he audit shall be made in accordance with generally accepted auditing standards." Rule 17a-5(i) requires that "[t]he accountant's report shall . . . [s]tate whether the audit was made in accordance with generally accepted auditing standards."

6. GAAS requires auditors to maintain strict independence from their audit clients.³ "[I]f an auditor's report states that its audit was in accordance with GAAS when the auditor was not independent, then it has violated Rule 17a-5(i)."⁴

7. Pursuant to Rule 17a-5(f)(3), certain of the Commission's auditor independence criteria described in Rules 2-01(b) and (c) of Regulation S-X⁵ apply to

³ AU-C Section 200.15-.16, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*. References herein to GAAS are to the versions of the auditing standards that were applicable to audits of brokers and dealers at the time of the audit at issue here.

⁴ *Rosenberg Rich Baker Berman & Company*, Exchange Act Release No. 69765, 2013 WL 2898032, at *4 (June 14, 2013).

⁵ 17 C.F.R. Part 210.



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audits of brokers and dealers.⁶ The applicable provisions include Rule 2-01(c)(4), which states in part:

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. The Firm served as the auditor of the Broker-Dealer's December 31, 2012 financial statements, as well as its December 31, 2013 financial statements. At all relevant times, the Broker-Dealer was a "broker" and "dealer," as defined in Section 110 of the Act and PCAOB Rules 1001(b)(iii) and 1001(d)(iii), and was not an "issuer," as defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

9. In March 2013, the Broker-Dealer filed with the Commission a Form X-17A-5 Part III for the year ended December 31, 2012. Included in that filing was an audit report signed by the Firm dated February 19, 2013. That report stated, among other things, that the Firm audited the Broker-Dealer's financial statements "in accordance with auditing standards generally accepted in the United States of America."

⁶ 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. 34-70073 at II.E.



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10. Firm staff completed an "Engagement Acceptance and Continuance Form" in connection with the audit of the Broker-Dealer's December 31, 2012 financial statements ("2012 Audit"). That form included a pre-printed item reading, "What services does the entity desire from our firm?" Firm staff added a checkmark under "Yes" alongside the pre-printed sub-item reading, "Preparation of financial statements."

11. Firm staff obtained from the Broker-Dealer in January and February 2013 various documents including a Form X-17A-5 Part IIA that Firm staff understood had been filed by the Broker-Dealer with the Financial Industry Regulatory Authority ("FINRA") and that bore the header "FOCUS Report (Financial and Operational Combined Uniform Single Report)." That Form X-17A-5 Part IIA contained, among other things, three financial statements: a Statement of Financial Condition as of December 31, 2012, a Statement of Income (Loss) for the period October 1, 2012 to December 31, 2012 ("FOCUS Statement of Income"), and a Statement of Changes in Ownership Equity for the period October 1, 2012 to December 31, 2012. The documents obtained from the Broker-Dealer also included at least two other sets of financial statements: a one-page financial statement document containing a balance sheet, an income statement, a statement of changes in members' equity, and a reconciliation of the income reflected in the FOCUS Statement of Income to income statement amounts recorded by the Broker-Dealer in internal accounting records; and an electronic file containing a general ledger, a trial balance, a balance sheet, an income statement, a cash flow statement, and a statement of changes in members' equity.

12. Firm staff used the above documents obtained from the Broker-Dealer to prepare the Statement of Financial Condition as of December 31, 2012, as well as the Statement of Income, Statement of Changes in Member's Equity, and Statement of Cash Flows for the year ended December 31, 2012, filed by the Broker-Dealer with the Commission in March 2013.

13. In preparing the above financial statements, Firm staff aggregated line items and changed line item descriptions as compared to corresponding information in the documents obtained from the Broker-Dealer.

14. Firm staff also prepared the notes to the Broker-Dealer's financial statements, which were filed by the Broker-Dealer with the Commission in March 2013. Firm staff based the preparation of the notes on the content and presentation of the notes to the previous year's financial statements filed by the Broker-Dealer, and in preparing them incorporated certain financial data provided by the Broker-Dealer.

15. Firm staff provided the Broker-Dealer with draft sets of financial statements on February 25 and February 26, 2013 for management approval.



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16. In October 2013, Board inspection staff conducted a review of certain aspects of the 2012 Audit. Board inspection staff communicated to the Firm the staff's finding that, as a result of the Firm's preparation of financial statements of the Broker-Dealer, the Firm had not been independent with respect to the 2012 Audit.

17. In July 2014, the Broker-Dealer filed with the Commission a Form X-17A-5 Part III for the year ended December 31, 2013. Included in that filing was an audit report signed by the Firm dated February 24, 2014. That report stated, among other things, that the Firm audited the Broker-Dealer's financial statements "in accordance with auditing standards generally accepted in the United States of America."

18. The Firm commenced work on the audit of the Broker-Dealer's financial statements for the year ended December 31, 2013 ("2013 Audit") in December 2013.

19. On December 20, 2013, Firm staff emailed the managing member and the business manager of the Broker-Dealer, writing in part:

When we had the PCAOB examination in October they were tough on the fact that we did not have you provide the financial statements to us already prepared (including footnotes), even though you gave us all the parts, just not in one cohesive form. So, I have attached a draft of the usual financial statements in MS Word format for you to enter the 2013 numbers. You do not need to worry about it looking perfect as we will put the numbers into our system and generate the final product as usual, just fill in where the XXX numbers are and any blank underlined ___ spaces.

20. Attached to the December 20, 2013 email was a draft set of financial statements, including a Statement of Financial Condition as of December 31, 2013; a Statement of Income, a Statement of Changes in Member's Equity, and a Statement of Cash Flows for the year ended December 31, 2013; and notes to the financial statements. The financial statements were facially complete except for dollar amounts, which appeared therein as placeholders consisting of one or more typed X's (e.g., "X" or "X,XXX"). The notes were facially complete except for dollar amounts and one calendar date, which appeared therein as placeholders consisting of blank underscores ("___") and the text "[DATE]," respectively. Firm staff based the preparation of these draft financial statements on the content and presentation of the previous year's financial statements filed by the Broker-Dealer.

21. Firm staff obtained from the Broker-Dealer in January and February 2014 various documents including items similar to those obtained in connection with the previous year's audit: a Form X-17A-5 Part IIA that Firm staff understood had been filed



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by the Broker-Dealer with FINRA and that contained financial statements; an electronic file containing a general ledger, a trial balance, a balance sheet, an income statement, a cash flow statement, and a statement of changes in members' equity; and other financial statements, reports, and schedules prepared by the Broker-Dealer. The draft set of financial statements provided by Firm staff to the Broker-Dealer on December 20, 2013 differed from, and reflected the aggregation of line items and changes to line item descriptions as compared to, corresponding information in the documents obtained from the Broker-Dealer.

22. On January 8, 2014, the Firm received a comment form issued by Board inspection staff in connection with the staff's review of certain aspects of the 2012 Audit. The comment form set out the staff's finding that the Firm had failed to maintain auditor independence under Rule 2-01(c)(4)(i) of Regulation S-X because it had prepared financial statements of the Broker-Dealer.

23. On February 6, 2014, the Broker-Dealer's business manager emailed back to Firm staff a revised version of the draft set of financial statements received by the Broker-Dealer on December 20, 2013. The revised set, including notes, was identical to the draft set except for the substitution of all twenty-four (24) placeholders with dollar amounts and, in one instance, a calendar date. After certain additional changes were made to the financial statements, the Broker-Dealer filed the financial statements with the Commission.

24. On February 24, 2014, Firm staff completed an "Engagement Acceptance and Continuance Form" in connection with the 2013 Audit. That form, unlike the version completed for the previous year's audit, contained no reference to financial statement preparation. It did contain, however, the following text in a section concerning independence: "The SEC expects auditors of broker-dealers to comply with the independence requirements established by 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." Firm staff also added a checkmark under "No" alongside the pre-printed sub-item reading, "Have any prohibited nonaudit services been performed for this client?"

25. Firm staff prepared the Broker-Dealer's December 31, 2013 financial statements, including notes, notwithstanding the fact that Firm staff took different steps to do so than it had in the previous year and believed that those steps would not impair the Firm's independence.

26. As a result of the Firm's conduct—both in preparing the December 31, 2012 financial statements before being notified by Board inspection staff that such preparation impaired its independence, and in preparing the December 31, 2013

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financial statements after that notification—the Firm was not independent of the Broker-Dealer 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 audits of the Broker-Dealer's financial statements. 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 auditor and the audit client."⁷

27. The Firm violated Rule 17a-5(i) by representing in its audit reports that it had performed the audits of the Broker-Dealer's December 31, 2012 financial statements and December 31, 2013 financial statements in accordance with GAAS when in fact, because of the independence impairments described above, the audits had not been performed in accordance with GAAS. Those violations constituted violations of the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto.

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 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,

⁷ *Revision of the Commission's Auditor Independence Requirements*, Exchange Act Release No. 43602 (November 21, 2000) at IV.D.4.b(i).



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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 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;

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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 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.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

July 9, 2015