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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS *In the Matter of Akiyo Yoshida, CPA,* *Respondent.*	)	PCAOB Release No. 105-2014-024 December 17, 2014

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring Akiyo Yoshida, CPA ("Yoshida" or "Respondent"); (2) suspending him from being associated with a registered public accounting firm for a period of one year from the date of this Order; (3) limiting his activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for an additional period of one year following the expiration of his suspension; and (4) requiring that he complete forty (40) additional hours of continuing professional education in subjects that are directly related to the audits of issuer financial statements under PCAOB standards. The Board is imposing these sanctions on the basis of its findings concerning Yoshida's violations of PCAOB rules and auditing standards in connection with the audit of the financial statements of Baldwin Technology Company, Inc. ("Baldwin") for the fiscal year ended June 30, 2010 ("FY 2010").

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 Act and PCAOB Rule 5200(a)(1) against Yoshida.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Yoshida 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

ORDER

without admitting or denying the findings herein, except as to the Board's jurisdiction over Yoshida and the subject matter of these proceedings, which are admitted, Yoshida consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[1]

III.

On the basis of Yoshida's Offer, the Board finds[2] that:

A. Respondent

1. Akiyo Yoshida, age 52, of Tokyo, Japan, is a certified public accountant ("CPA") licensed under the laws of the state of California (license no. 64454). In 2000, Yoshida's California CPA license became inactive. As a result, Yoshida is not required to meet California's continuing professional education requirements, and is not licensed to engage in the practice of public accountancy. At all relevant times, Yoshida was a partner in the Tokyo, Japan office of Grant Thornton Taiyo ASG, LLC ("GT Japan"),[3] a registered public accounting firm, and 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. Summary

2. This matter concerns Yoshida's failures to comply with PCAOB rules and auditing standards in connection with his audit work concerning the revenue recognized by Baldwin-Japan, Limited ("BJL"), a material subsidiary of Baldwin. Baldwin's external auditor for FY 2010 was Grant Thornton LLP ("GT US"). Baldwin had subsidiaries in 11

[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] The Board finds that Yoshida'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: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

[3] On October 21, 2014, GT Japan submitted a Form 3, *Special Report*, to the Board stating that the firm had changed its legal name to Grant Thornton Taiyo LLC.

ORDER

countries, and GT US used the work of other auditors, including GT Japan, to audit the financial reporting packages of Baldwin's subsidiaries. Baldwin consolidated these financial reporting packages into its FY 2010 consolidated financial statements, and GT US issued its audit report on Baldwin's consolidated financial statements.

3. BJL's revenue was included in net sales reported in Baldwin's FY 2010 consolidated financial statements. During FY 2010, BJL changed its revenue recognition policy. Prior to 2010, BJL's policy was to recognize revenue for both the sale and installation of equipment when installation was completed. In 2010, however, BJL began separating the elements of multiple-element arrangements. As a result, BJL began recognizing revenue from the sale of equipment at the time that the delivery of equipment occurred, instead of deferring that revenue until the installation of equipment was completed.

4. First, Yoshida was aware of the change in revenue recognition policy at the time of the FY 2010 audit, and he was instructed by GT US to test BJL's change in revenue recognition policy for compliance with U.S. Generally Accepted Accounting Principles ("US GAAP"). Yoshida recognized, during audit planning, that the change in policy had the potential to cause material misstatements in BJL's FY 2010 financial reporting package.[4] Yoshida, however, failed adequately to test the change in revenue recognition policy to determine whether BJL had appropriate evidence to support separating deliverables in multiple-element arrangements pursuant to US GAAP.

5. Second, Yoshida failed to evaluate properly red flags that should have alerted him to the possibility that BJL may have been improperly accelerating the recognition of revenue during FY 2010. For example, while planning the audit, Yoshida recognized a risk of material misstatement related to fraud: "Since the power of the president of the company is relatively strong and the controller is new, the president could make employees accelerate sales recognition . . ." Yoshida, however, ignored red flags indicating that BJL may, in fact, have been improperly accelerating sales. Those red flags included BJL's recording of all of the material sales for the last month of FY 2010 on the last day of the fiscal year. Yoshida's failures compromised the audit's ability to detect the improperly accelerated sales at BJL.

6. This matter also concerns Yoshida's failure to supervise assistants in accordance with professional standards. Yoshida failed to review the work of assistants in order to determine whether their work was adequately performed and audit

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[4] PCAOB standards state that "the auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition." AU § 316.41, *Consideration of Fraud in a Financial Statement Audit*.

PCAOB
Public Company Accounting Oversight Board

ORDER

objectives were accomplished. One of the audit tests that Yoshida planned to perform to address the risk of improperly accelerated sales was to vouch sales to purchase orders and delivery documentation. Yoshida's review of the relevant work paper, however, did not provide him with sufficient information to determine if his assistants had tested whether BJL was delivering equipment at or near the date that its customers had requested delivery. In fact, BJL purportedly accelerated delivery for four of the 13 material sales recorded on the last day of FY 2010. For each of these orders, BJL's customers requested delivery in the fiscal year ended June 30, 2011 ("FY 2011"), but BJL purported to have delivered the equipment in FY 2010.

7. Finally, this matter concerns Yoshida's failure to ensure that he was technically proficient in relevant matters. Prior to FY 2010, Yoshida had never performed an audit that required testing whether the audit client was able to separate the elements of multiple-element arrangements in compliance with US GAAP. Yoshida, however, did not seek out training, and did not perform a sufficient review of the relevant professional guidance, in order to ensure that he would test BJL's new revenue recognition policy in accordance with professional standards.

C. <u>Background</u>

8. GT US audited the consolidated financial statements of Baldwin for the fiscal years ending June 30, 2007 through June 30, 2011. In auditing Baldwin's consolidated financial statements, GT US used the work of other independent auditors that were members of the Grant Thornton International Ltd. network of firms. GT US engaged GT Japan to audit the financial reporting packages prepared by BJL. At all relevant times, Yoshida was the GT Japan partner responsible for auditing BJL's financial reporting package.

9. Baldwin is a manufacturer of cleaning equipment and related consumable products used in the commercial printing industry. Baldwin has subsidiaries in 11 countries, including Japan. At all relevant times, Baldwin's common stock was registered under Section 12(b) of the Securities Exchange Act of 1934 and was listed on the New York Stock Exchange. At all relevant times, Baldwin was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).[5]

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[5] On March 30, 2012, Baldwin filed with the U.S. Securities and Exchange Commission ("Commission") a Form 15, *Certification and Notice of Termination of Registration Under Section 12(g) of the Securities Exchange Act of 1934 or Suspension of Duty to File Reports Under Sections 13 and 15(d) of the Securities Exchange Act of 1934*.

ORDER

10. In FY 2010, BJL was a material subsidiary of Baldwin. BJL was the largest contributor to Baldwin's FY 2010 consolidated net sales, constituting 26 percent, or approximately $40 million, of Baldwin's reported net sales. The vast majority of BJL's sales fell into two categories: (a) the sale and installation of blanket cleaning and spray dampening equipment (collectively, "equipment"); and (b) the sale of woven fabric, cleaning fluids, and spare parts used in BJL's equipment (collectively, "consumable products"). Equipment sales constituted more than half of BJL's total revenue in FY 2010.

The FY 2010 Audit

11. In June 2010, GT US sent Yoshida and his engagement team an International Assignment Memorandum ("IAM") containing instructions for Yoshida to follow in performing his audit work. The IAM instructed Yoshida that Baldwin's consolidated financial statements would be presented in conformity with US GAAP, and that Yoshida should conduct his audit work in accordance with PCAOB standards. The IAM instructed Yoshida to perform a full-scope integrated audit of BJL's financial reporting package.

12. After receiving the IAM, Yoshida sent GT US a letter stating that he would comply with the instructions contained in the IAM. This letter stated, in relevant part:

> [W]e confirm that we have received and reviewed the [FY 2010 IAM] as it relates to our work on [BJL's financial reporting package.]
>
> Our work will be carried out in accordance with the applicable US professional standards, and our personnel assigned to this engagement have the necessary knowledge and experience to perform their responsibilities. In addition, we understand the IAM instructions and anticipate no problems in responding by the due dates specified.

Yoshida signed this letter on July 7, 2010.

13. Approximately one month later, on August 12, 2010, Yoshida's engagement team sent GT US a reporting package concerning BJL. The reporting package did not identify any material unadjusted differences that were required to be made to BJL's FY 2010 financial reporting package. On September 28, 2010, the GT US partner for the Baldwin audit engagement authorized the release of GT US's audit report. The report contained an unqualified opinion on Baldwin's FY 2010 consolidated financial statements. On the same day, Baldwin filed its Form 10-K with the Commission. The Form 10-K contained Baldwin's FY 2010 consolidated financial statements, and GT US's audit report on those financial statements.

ORDER

Accounting Irregularities at BJL and Baldwin's Related Restatement

14. On May 10, 2011, Baldwin filed a Form 8-K with the Commission reporting that Baldwin's FY 2010 financial statements should no longer be relied upon. Baldwin reported that sales transactions recognized as revenue in the fourth quarter of FY 2010 should have been recognized as revenue in FY 2011. Baldwin reported that its premature recognition of revenue resulted from financial irregularities at BJL.

15. Two weeks later, on May 23, 2011, Baldwin filed a Form 10-K/A with the Commission. This filing contained Baldwin's restated FY 2010 financial statements. The restatement decreased consolidated net sales by 2.6 percent, or approximately $4 million, from approximately $152 million to approximately $148 million. The restatement decreased net income by 23 percent, from approximately $5 million to approximately $4 million. As a result of the restatement, Baldwin was in violation of the financial covenants contained in its revolving credit agreement. In March 2012, Baldwin was acquired by a private equity firm and Baldwin's stock ceased trading on the public markets.

16. In its restated financial statements, Baldwin disclosed, as follows: "In late February 2011, allegations surfaced that profits were being manipulated at the Company's Japanese subsidiary. The Audit Committee of the Board of Directors commissioned an investigation consisting of extensive employee interviews and audit procedures to review the allegations. The investigation confirmed the premature recognition of revenue and related costs primarily during the quarter ended June 30, 2010 through intentional circumvention of internal controls apparently intended to achieve sales and earnings forecasts previously submitted by the Japanese subsidiary to corporate senior management."

D. Yoshida Failed to Comply with PCAOB Standards in Connection with the Audit of BJL's FY 2010 Financial Reporting Package.

17. In connection with the preparation or issuance of an audit report, PCAOB rules require that associated persons of registered public accounting firms comply with the Board's auditing standards.[6] Among other things, PCAOB standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain

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[6] PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards;* PCAOB Rule 3200T, *Interim Auditing Standards*.

PCAOB
Public Company Accounting Oversight Board

ORDER

sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements.[7]

18. Under PCAOB auditing standards, the auditor "has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud."[8] Because fraudulent financial reporting often results from an overstatement of revenues, including premature revenue recognition, "the auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition."[9] PCAOB auditing standards identify specific examples of fraud risks, including: (a) "significant declines in customer demand and increasing business failures in either the industry or overall economy;" and (b) the need "to obtain additional debt or equity financing to stay competitive."[10]

19. In forming judgments about the risk of a material misstatement due to fraud, PCAOB auditing standards provide: "The auditor should consider management's selection and application of significant accounting principles, particularly those related to subjective measurements and complex transactions. In this respect, the auditor may have a greater concern about whether the accounting principles selected and policies adopted are being applied in an inappropriate manner to create a material misstatement of the financial statements."[11]

20. PCAOB auditing standards state that "the auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the audit."[12] Certain conditions identified during the audit may bear upon the auditor's assessment of the risk of fraud, including transactions that "are improperly recorded as to . . .

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[7] See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; AU § 326, *Evidential Matter*. This Order applies PCAOB auditing standards in effect at the time of the conduct described herein.

[8] AU § 110.02, *Responsibilities and Functions of the Independent Auditor*; see also AU § 316.01 (same).

[9] AU § 316.41.

[10] Id. § 316, Appendix A.2.

[11] Id. § 316.50.

[12] Id. § 316.68.

ORDER

accounting period."[13] PCAOB auditing standards state, as well, that the auditor "should evaluate whether analytical procedures that were performed as substantive tests or in the overall review stage of the audit . . . indicate a previously unrecognized risk of material misstatement due to fraud."[14] PCAOB standards also note that trends and relationships may indicate a risk of material misstatement due to fraud: "Unusual year-end revenue and income often are particularly relevant. These might include, for example . . . uncharacteristically large amounts of income being reported in the last week or two of the reporting period from unusual transactions."[15]

21. PCAOB standards state that: "In evaluating whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, the auditor should consider the effects, both individually and in the aggregate, of misstatements that are not corrected by the entity."[16] Further, the "consideration and aggregation of misstatements should include the auditor's best estimate of the total misstatements in the account balances or classes of transactions that he or she has examined."[17] PCAOB standards further state that: "Qualitative considerations also influence the auditor in reaching a conclusion as to whether misstatements are material."[18]

22. Yoshida failed to comply with these rules and standards in connection with the audit of BJL's FY 2010 financial reporting package.

Yoshida Was Aware of Certain Risks of a Material Misstatement at the Time of the FY 2010 Audit.

23. Yoshida was aware of numerous risks of material misstatement, whether caused by error or fraud, at the time of the FY 2010 audit. Yoshida did not take sufficient steps, however, in response to these known fraud risks. First, Yoshida knew

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[13] Id.

[14] Id. § 316.69.

[15] Id. § 316.71.

[16] AU § 312.34, *Audit Risk and Materiality in Conducting an Audit.*

[17] Id.

[18] Id.; see also id. § 312.11 (discussing "interaction of quantitative and qualitative considerations in materiality judgments").

that during the prior year, local management at the U.S. subsidiary of Baldwin had improperly accelerated revenue recognition by: (a) making shipments that were not supported by properly documented customer orders; and (b) recognizing revenue in a manner that did not conform with the terms of purchase orders.

24. Yoshida also knew that Baldwin was subject to bank debt covenants that required the company to meet sales targets in order to avoid being declared in default of its obligations under the terms of its loans. These bank covenants created an incentive for Baldwin and its subsidiaries, including BJL, to accelerate revenue recognition in order to ensure that Baldwin achieved its sales targets.

25. Yoshida also knew that demand for Baldwin's products had declined in FY 2010. This decline occurred in the context of a broader slowdown in the global economy. As Baldwin reported in its FY 2010 Form 10-K filing with the Commission:

> Since 2008, financial markets throughout the world have been experiencing disruption, including volatility in securities prices, diminished liquidity and credit availability, failure and potential failures of major financial institutions and unprecedented government support of financial institutions. These developments and the continuing economic downturn have and will adversely impact the Company's business and financial condition in a number of ways, including impacts beyond those typically associated with other recent downturns in the U.S. and foreign economies.

26. During audit planning, Yoshida and his engagement team recognized that revenue had a risk of material misstatement due to fraud. Yoshida understood that the President of BJL was powerful and could override internal controls. Further, the Controller of BJL was new. Yoshida expressly recognized the risk that the President of BJL could direct BJL's employees to improperly recognize revenue.

27. During audit planning, Yoshida specifically understood that sales cutoff was an area where the financial statements may be susceptible to material misstatement. He knew that BJL had changed its revenue recognition policy during the year under audit, and that this change in policy resulted in BJL accelerating its recognition of revenue from equipment sales. Yoshida understood that this change in revenue recognition policy could potentially cause material misstatements due to error in BJL's financial reporting package. Yoshida testified that he and his engagement team needed to "be very careful about the sales cutoff" because of: (a) the fraud risk that the President of BJL could force employees to accelerate sales recognition; and (b) the risk of errors in the timing of sales recognition due to the change in BJL's revenue recognition policy.

ORDER

Yoshida Failed Adequately to Test BJL's New Revenue Recognition Policy for Compliance with US GAAP.

28. In FY 2010, BJL changed its revenue recognition policy. Under the new policy, BJL would recognize revenue from equipment sales at the time that delivery of equipment occurred, and BJL would recognize revenue from the installation of equipment at the time that installation was completed. Previously, BJL's policy was to recognize revenue for both the sale and installation of equipment when installation was completed. Therefore, this change in policy had the effect of accelerating revenue recognition for equipment sales. Yoshida and his engagement team failed adequately to test the change in revenue recognition policy to determine whether BJL had appropriate evidence to support separating deliverables in multiple-element arrangements pursuant to US GAAP.

29. GT US instructed Yoshida to test BJL's new revenue recognition policy for compliance with US GAAP. On April 7, 2010, GT US emailed Yoshida supporting documents from BJL related to the change in revenue recognition policy, and instructed Yoshida that the attached documents "should be tested during interim for our FY 2010 audit." The documents that GT US sent to Yoshida included: (1) a client-prepared memorandum documenting BJL's new revenue recognition policy (the "Revenue Memo"); (2) a client-prepared spreadsheet calculating an hourly rate for the installation of BJL's equipment (the "Calculation Sheet"); and (3) four quotes from third-parties for the cost of installing BJL's equipment (the "Third-Party Quotes").

30. The US GAAP relevant to BJL's change in revenue recognition policy was Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* ("EITF 00-21").[19] EITF 00-21 is used to determine whether an arrangement with multiple deliverables consists of more than one unit of accounting. If the arrangement consists of more than one unit of accounting, EITF 00-21 discusses how consideration for the arrangement should be allocated among the separate units of accounting. Because equipment will always be delivered prior to installation, there is a risk that a company will try to decrease the consideration allocated to the fair value of installation, in order to maximize the amount of revenue that the company can recognize upon delivery. EITF 00-21 requires, therefore, that the delivered item should

[19] The accounting guidance in EITF 00-21 was codified in the FASB's Accounting Standard Codification ("ASC") Topic 605-25, *Multiple-Element Arrangements*, which became effective for interim and annual periods ending after September 15, 2009.

PCAOB
Public Company Accounting Oversight Board

ORDER

only be considered a separate unit of accounting if, among other things, there "is objective and reliable evidence of the fair value of the undelivered item(s)."[20]

31. Yoshida did not test management's assertions purportedly justifying BJL's change in revenue recognition policy that were outlined in the Revenue Memo. More specifically, the Revenue Memo contained BJL's estimate of the appropriate hourly rate for installing its equipment. Yoshida failed to test this estimate, despite the fact that GT US specifically instructed Yoshida to test the assertions in the Revenue Memo for compliance with US GAAP.

32. Yoshida and his engagement team, moreover, did not perform sufficient procedures to test whether BJL possessed objective and reliable evidence of the fair value of the installation element. More specifically, Yoshida did not adequately test the hourly labor rate that BJL used to estimate the fair value of installation. The Calculation Sheet took the Third-Party Quotes and made adjustments to deduct BJL-estimated amounts for outsourcing and travel expenses. This calculated adjustment resulted in a BJL-estimated total labor fee. BJL then took the BJL-estimated total labor fee and calculated an hourly rate using BJL management's own estimate of the number of hours that it would take BJL to install the equipment. BJL management used this hourly rate to estimate the cost of installation for multiple-element arrangements. Yoshida did not test either management's estimated fee adjustments, or management's estimate of the number of hours it would take BJL to install the equipment. Yoshida, therefore, did not gather sufficient competent evidential matter to determine whether BJL had objective and reliable evidence of the fair value of installation, as required by US GAAP.

Yoshida was Aware of Additional Red Flags in the Results of Audit Testing.

<u>Sales Cutoff Tests</u>

33. Yoshida also failed to take sufficient steps in light of audit evidence suggesting that BJL's financial reporting package may have been materially misstated due to error or fraud. Yoshida and his engagement team performed two procedures related to sales cutoff. The results of both tests contained red flags indicating that BJL's financial reporting package may have been materially misstated. Yoshida, however,

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20 EITF 00-21 ¶ 9(b).

PCAOB
Public Company Accounting Oversight Board

ORDER

failed to exercise professional skepticism in assessing and evaluating the results of the cutoff tests.[21]

The Last/First Test

34. The first cutoff test that Yoshida and his engagement team performed involved selecting the last five sales from FY 2010 and first five sales from FY 2011, and testing whether each of these sales was recorded in the correct fiscal reporting period (the "Last/First" test). All sales, regardless of the amount or type of sale, were eligible for testing. The last five transactions of FY 2010 and the first five transactions of FY 2011 included sales of equipment as well as sales of consumable goods.

35. The Last/First test identified cutoff errors in four of the 10 sales selected for testing. In other words, for 40 percent of the selected transactions, BJL had recognized revenue in the wrong fiscal year. Three of the four sales were recognized as revenue in FY 2010, but should have been recognized as revenue in FY 2011. The fourth sale was recognized as revenue in FY 2011, but should have been recognized as revenue in FY 2010. And a fifth sale, for which BJL recognized revenue in FY 2010, could not be tested because BJL could not provide evidence to support the sale. Yoshida was aware of these cutoff errors at the time of the audit.

36. Yoshida did not consider whether to change the nature, timing, or extent of audit procedures in light of these cutoff errors. Yoshida considered neither the qualitative implications,[22] nor the quantitative implications,[23] of the forty-percent error

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[21] AU § 230.07 ("Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.").

[22] See AU § 312.11 (noting that as "a result of the interaction of quantitative and qualitative considerations in materiality judgments, misstatements of relatively small amounts that come to the auditor's attention could have a material effect on the financial statements"); see also id. § 312.34 ("Qualitative considerations also influence the auditor in reaching a conclusion as to whether misstatements are material.").

[23] Id. § 312.34 (stating that "the auditor should consider the effects, both individually and in the aggregate, of misstatements that are not corrected by the entity. In evaluating the effects of misstatements, the auditor should include both qualitative and quantitative considerations").

rate in the results of the Last/First test. For example, three of the four cutoff errors involved sales of "clothroll," a consumable product used in BJL's equipment. In FY 2010, sales of clothroll totaled approximately $14 million, or more than one-third of BJL's approximately $40 million in total sales.

The Material Sales Test

37. For the second sales cutoff test, the engagement team examined quantitatively material sales for the last month of the fiscal reporting period (the "Material Sales" test). The threshold for the Material Sales test was set at approximately $110,000. Only transactions above this threshold were eligible for testing. The transactions selected for testing involved sales of equipment.

38. As part of BJL's change in revenue recognition policy, BJL created a document entitled the Product Delivery Completion Statement (the "Acceptance Form"). The Acceptance Form was used by BJL management to document that delivery of equipment occurred, such that BJL could recognize revenue from the sale of equipment at the time that BJL's customers accepted the equipment.

39. In planning the Material Sales test, Yoshida determined that his engagement team could rely on the Acceptance Forms. Yoshida and his engagement team did not receive the Acceptance Forms directly from BJL's customers. Rather, BJL sales associates provided these forms to BJL's sales administrators. BJL then provided these forms to Yoshida and his engagement team.

40. The results of the Material Sales test showed that BJL had 13 transactions over the threshold amount at year-end, and that each of these transactions was recorded on the last day of FY 2010.[24] The results of this test further indicated that BJL had no transactions over the threshold amount in the first month of the following fiscal year. PCAOB standards state that uncharacteristically large amounts of income being reported in the last week or two of the reporting period, from unusual transactions, may be evidence of a risk of material misstatement due to fraud.[25]

41. Yoshida was aware of the results of the Material Sales test at the time of the FY 2010 audit; however, Yoshida did not consider the results to be evidence of a

[24] The revenue recognized for these 13 transactions totaled approximately $4 million. These transactions constituted the majority of the improperly accelerated sales.

[25] AU § 316.71.

ORDER

risk of material misstatement due to fraud. He did not understand that late-entered transactions occurring at the end of a fiscal reporting period constituted a fraud risk. As a result, he failed to consider whether to change the nature, timing, or extent of audit procedures in consideration of the results of the Material Sales test. For example, Yoshida and his engagement team could have considered performing subsequent cash receipts testing to determine if BJL's customers paid for the equipment after the end of the fiscal year under audit. Yoshida and his engagement team, as well, could have considered obtaining third-party shipping documents supporting these sales.

Analytical Procedures

42. Yoshida also reviewed the results of analytical procedures that his engagement team performed. As a result of that review, Yoshida knew that BJL's sales had declined by 20 percent in FY 2010, while accounts receivable had increased by 11 percent. Yoshida took no steps to evaluate the relationship between these two trends. More specifically, Yoshida did not consider why sales increased toward the end of the year, in an amount sufficient to cause an 11 percent increase in accounts receivable, in the same year that total sales had decreased by 20 percent.

E. Yoshida Failed to Supervise Members of the GT Japan Engagement Team in Compliance with PCAOB Standards.

43. PCAOB standards required Yoshida to supervise the work of his assistants.[26] Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit, keeping informed of significant problems encountered, reviewing work performed, and determining whether audit objectives were accomplished.[27] PCAOB standards require that the work performed by assistants be reviewed to determine whether the work was adequately performed.[28] Yoshida did not supervise his assistants in compliance with PCAOB standards.

44. During audit planning, Yoshida identified the fraud risk that BJL's President was powerful, its Controller was new, and BJL's President could override internal controls and direct BJL's employees to accelerate revenue recognition improperly. Also, Yoshida identified the risk of material misstatement due to error resulting from the fact that BJL had adopted a new, accelerated revenue recognition

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[26] AU § 311, *Planning and Supervision*.

[27] Id. § 311.11.

[28] Id. § 311.13.

ORDER

policy during FY 2010. Yoshida instructed the engagement team that they would need to be careful when performing sales cutoff testing.

45. Yoshida instructed his senior manager to follow the instructions in the IAM in order to test sales cutoff. Yoshida also reviewed and approved GT Japan's FY 2010 Revenue Audit Program, which instructed the engagement team to perform sales transaction testing as required by the IAM. The IAM, in turn, instructed Yoshida and the engagement team to obtain sales contracts in order to document material sales terms, including the date of sale. The IAM, as well, required Yoshida and his engagement team to trace sales transactions to purchase orders and delivery documentation.[29]

46. Yoshida understood that the work performed by his assistants needed to be reviewed in order to determine whether the work was adequately performed, and audit objectives were accomplished. Yoshida's review of the results of the Material Sales test, however, did not provide him with information sufficient to make these determinations. The Material Sales test work paper was not sufficiently detailed to show Yoshida if his assistants had reviewed sales terms, including sales dates. More specifically, the work papers contained no evidence that Yoshida's assistants had compared negotiated delivery dates, as indicated on purchase orders, with actual delivery dates, as purportedly indicated on the Acceptance Forms. Yoshida could not know from reviewing the Material Sales test work paper whether the identified risk of improperly recognized revenue was actually addressed by the engagement team's audit testing.[30] In fact, for four of the 13 Material Sales transactions, the customers had requested delivery to occur during FY 2011, yet BJL purportedly accelerated delivery to its customers, and recognized revenue from these sales, on the last day of FY 2010.

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[29] In planning and performing the audit, PCAOB standards required Yoshida to understand the business arrangements of BJL and its customers. Id. §§ 311.06-.07. Auditors typically obtain and review purchase orders and sales agreements in order to determine that the sales recorded in the books and records of an audit client are consistent with the terms of the underlying contracts.

[30] See id. § 311.11 ("Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished."); id. § 311.13 ("The work performed by each assistant should be reviewed to determine whether it was adequately performed . . .").

ORDER

F. Yoshida Failed to Comply with PCAOB Standards Related to Technical Training and Proficiency.

47. Due professional care requires the auditor to observe the standards of field work and reporting.[31] More specifically, due professional care requires that the engagement partner "should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client."[32] Yoshida did not perform his audit work in compliance with these professional standards.

48. Yoshida knew at the time of the audit of BJL's FY 2010 financial reporting package that this would be his first audit engagement to involve evaluating the separability of deliverables in multiple-element arrangements, and the allocation of consideration among individual accounting units pursuant to EITF 00-21. Yoshida knew that he had never participated in an audit involving the application of EITF 00-21, whether as a staff or as a partner. Yoshida failed, however, to develop the necessary knowledge about EITF 00-21. Likewise, Yoshida failed to seek out additional training, and he failed to perform a sufficient review of the relevant professional guidance, in order to enable him to perform his audit work in accordance with professional standards.

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 Akiyo Yoshida'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), Akiyo Yoshida is hereby censured;

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Akiyo Yoshida is suspended for one (1) year from the date of this Order from being an associated person of a registered public accounting firm, as

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[31] AU § 230.02.

[32] Id. § 230.06; see also AU § 210.01, *Training and Proficiency of the Independent Auditor* ("audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor").

ORDER

that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[33]

C. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for one (1) year following the termination of the suspension ordered in paragraph B, Akiyo Yoshida's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Yoshida shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's Auditing Standard No. 7, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; or (5) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in the Board's Interim Auditing Standard AU Section 543, *Part of Audit Performed by Other Independent Auditors*; and

D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Akiyo Yoshida is required to complete, within one (1) year from the date of the issuance of this Order, forty (40) hours of continuing professional education ("CPE") in subjects that are directly related to the audits of issuer financial statements under PCAOB standards (such hours shall be

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[33] See Act § 105(c)(7)(B) ("It 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.").

in addition to, and shall not be counted in, the CPE that he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 17, 2014