
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS

In the Matter of Nathan M. Suddeth, CPA,

Respondent.

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) PCAOB Release No. 105-2013-007
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) September 10, 2013
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring Nathan M. Suddeth, CPA ("Suddeth"); and (2) barring him from being an associated person of a registered public accounting firm.^{1/} The Board is imposing these sanctions on the basis of its findings that Suddeth violated PCAOB rules and auditing standards by creating and improperly backdating certain audit work papers in connection with a Board inspection.

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, (the "Act") and PCAOB Rule 5200(a)(1) against Suddeth.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Suddeth 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 him and the subject matter of these proceedings, which are admitted, Suddeth

^{1/} Suddeth may file a petition for Board consent to associate with a registered public accounting firm after two (2) years from the date of this Order.

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consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.^{2/}

III.

On the basis of Suddeth's Offer, the Board finds^{3/} that:

A. Respondent

1. Nathan M. Suddeth, age 47, of Gibsonia, Pennsylvania, is a certified public accountant who is licensed under the laws of the State of Illinois (license no. 065-029071) and the Commonwealth of Pennsylvania (license no. CA052400). At all relevant times, Suddeth was a partner in the Pittsburgh, Pennsylvania office of Deloitte & Touche LLP ("Deloitte"), and an associated person of a registered public accounting firm, as that term is defined by Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Suddeth was the engagement partner for Deloitte's audits of the fiscal year 2009, 2010, and 2011 financial statements of the "Company," as defined below in paragraph 3. As the engagement partner, Suddeth was responsible for supervising the members of the Company audit engagement team, and had overall responsibility for ensuring their compliance with PCAOB rules and auditing standards relating to the audits of the Company. In June 2010, Deloitte appointed Suddeth as the Partner in Charge of Deloitte's audit practice for the Pittsburgh office. In or about July 2012, Deloitte investigated allegations that Suddeth had improperly added work papers to the Company audit documentation in advance of a PCAOB inspection. By August 2012, Deloitte voluntarily reported the results of its investigation to the PCAOB, and removed Suddeth both from his role as Partner in Charge of the audit practice for the Pittsburgh office and from all direct audit responsibility for any public or private client. Suddeth retired from Deloitte effective June 1, 2013.

^{2/} The findings herein are made pursuant to Suddeth's Offer and are not binding on any other person or entity in this or any other proceeding.

^{3/} The sanctions that the Board is imposing on Suddeth in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Suddeth's conduct described in this Order meets the condition set out in Section 105(c)(5), which provides that such sanctions may be imposed in the event of (A) intentional or knowing conduct, including reckless conduct, that results in 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.

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B. Summary

2. This matter concerns Suddeth's failure to cooperate in a Board inspection and failure to adhere to the Board's standards regarding audit documentation. Specifically, Suddeth violated Board rules and auditing standards by creating and improperly backdating three work papers for an audit, more than two months after the applicable documentation completion date, and after he knew that the Board had selected that audit for inspection. At no time did Suddeth make PCAOB inspectors aware that he had created those work papers, improperly backdated them, and caused them to be added to Deloitte's audit documentation shortly before the inspection. Through his actions, Suddeth violated PCAOB Rule 4006, *Duty to Cooperate with Inspectors*. Suddeth's conduct also violated PCAOB Auditing Standard No. 3 ("AS3"), *Audit Documentation*, because he caused documents to be added to the work papers after the documentation completion date, without indicating the actual dates that the documents were added to the work papers and the reasons for adding the documentation.

C. Suddeth Violated PCAOB Rules and Auditing Standards

3. The "Company" is an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). In June 2011, the Board began fieldwork for its inspection of Deloitte's audit of the Company's December 31, 2010 financial statements.

4. PCAOB rules require that an associated person of a registered public accounting firm "shall cooperate with the Board in the performance of any Board inspection."^{4/} This cooperation obligation includes an obligation not to provide misleading documents or information in connection with the Board's inspection processes.^{5/} PCAOB rules also require that associated persons of registered public accounting firms comply with the Board's auditing standards.^{6/} Among other things, PCAOB auditing standards require that an auditor make certain written disclosures if the

^{4/} PCAOB Rule 4006, *Duty to Cooperate with Inspectors*.

^{5/} See *Dale Arnold Hotz, CPA*, PCAOB Rel. No. 105-2012-008 (Nov. 13, 2012) ¶ 7; *Peter C. O'Toole, CPA*, PCAOB Rel. No. 105-2011-005 (Aug. 1, 2011) ¶ 5; *Drakeford & Drakeford, LLC*, PCAOB Rel. No. 105-2009-002 (June 16, 2009) ¶ 8; see also *Gately & Associates, LLC*, SEC Rel. No. 34-62656 at 22-23 (August 5, 2010) (sustaining Board finding that respondents failed to cooperate with Board inspection).

^{6/} See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.

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auditor adds audit work papers after the documentation completion date.^{7/} As described below, Suddeth violated PCAOB rules and auditing standards when he: (1) created and improperly backdated three documents and caused them to be added to the audit work papers after the documentation completion date; (2) provided those misleading documents to the Board in connection with the Board's inspection of the audit; and (3) failed to disclose to the Board that a statement in an "Engagement Profile," submitted to the Board prior to the inspection, was no longer accurate because of the addition of the three documents after the documentation completion date.

The Audit

5. Deloitte audited the Company's December 31, 2010 financial statements. Suddeth served as the engagement partner for that audit (the "Audit").

6. Deloitte's audit report for the Audit expressed an unqualified opinion and stated that the Audit was conducted in accordance with PCAOB standards. The audit report stated that the Company's December 31, 2010 financial statements presented fairly, in all material respects, the Company's financial position, results of operations, and cash flows in conformity with U.S. Generally Accepted Accounting Principles. The audit report was included in the Company's annual report filed with the U.S. Securities and Exchange Commission ("Commission").

7. The audit report release date for the Audit was prior to March 1, 2011.^{8/} The documentation completion date, therefore, was prior to April 15, 2011.^{9/} While information may be added to the work papers following the documentation completion date, the new documentation must disclose the date the information was added, the person preparing the additional documentation, and the reason for adding the information to the work papers after the documentation completion date.^{10/}

^{7/} See AS3 ¶ 16.

^{8/} See id. ¶ 14 (defining report release date as "the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements").

^{9/} See id. ¶ 15 (defining documentation completion date as "a date not more than 45 days after the report release date").

^{10/} See id. ¶ 16.

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Suddeth Failed to Prepare Audit Documentation in a Timely Manner

8. During the Audit, Suddeth planned to document that he held certain meetings with the Company's management, specifically the Chief Financial Officer and General Counsel, to discuss, among other things, information relating to risks of fraud at the Company.^{11/} Suddeth documented that he had those discussions in two memoranda (respectively, the "CFO Memorandum" and the "GC Memorandum"), but did not do so until more than two months after the documentation completion date.

9. During the Audit, Suddeth also planned to draft a memorandum (the "Independence Memorandum") to document Deloitte's consideration of the requirements of PCAOB Rule 3524, *Audit Committee Pre-Approval of Certain Tax Services*, PCAOB Rule 3525, *Audit Committee Pre-Approval of Non-Audit Services Related to Internal Control Over Financial Reporting*, and Rule 3526, *Communication with Audit Committees Concerning Independence*, information that those rules require to be documented. Suddeth also did not complete the Independence Memorandum until more than two months after the documentation completion date.

10. Between the audit report release date and the documentation completion date for the Audit, Suddeth was reminded by the engagement team that the CFO Memorandum, GC Memorandum, and Independence Memorandum (collectively, the "Three Memoranda") were not in the work papers.

11. Just prior to the Audit engagement team submitting the Audit documentation to Deloitte's records management office to begin the process of archival and retention, Suddeth informed the Audit engagement team that he would not complete the Three Memoranda prior to commencement of the submission process. However, Suddeth caused a work paper index for the Audit to list the Three Memoranda as manual work papers (*i.e.*, work papers in hard copy paper format, as opposed to electronic format).^{12/}

^{11/} AU §§ 316.20 – 316.27, *Consideration of Fraud in a Financial Statement Audit*, provide that auditors should inquire of management and others about risks of fraud during the audit. All references to PCAOB standards are to the versions of those standards in effect at the time of Deloitte's audit of the Company for fiscal year 2010.

^{12/} The work paper indexes for Deloitte's audits of the Company for fiscal years 2009 and 2011 also list memoranda similar to the CFO Memorandum and GC Memorandum as manual work papers. However, those memoranda were never included in the work papers for those audits, nor did the Board inspect those audits.

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12. As of the documentation completion date for the Audit, Deloitte had assembled the Audit work papers for retention, but neither Suddeth nor anyone else had completed the Three Memoranda or added them to the work papers for the Audit.

Suddeth's Steps Taken in Advance of the Board's Inspection

13. By May 23, 2011, the Board notified Deloitte that the Board's Division of Registration and Inspections ("Board's Inspection Division") would inspect the Audit. The Act "requires the Board to conduct a 'continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons . . . with [the Act], the rules of the Board, the rules of the Commission, or professional standards."^{13/}

14. On May 23, 2011, Deloitte informed Suddeth that the Audit would be inspected by the Board's Inspection Division. Field work for the inspection was scheduled to commence on June 13, 2011.

The Engagement Profile

15. Before inspection field work began, the Board's Inspection Division provided Deloitte with a document entitled Public Company Accounting Oversight Board 2011 Inspection Period Engagement Profile ("Engagement Profile"), and requested that the document be completed and returned by June 6, 2011. The Audit engagement team completed the Engagement Profile, and Suddeth reviewed it, signed it, and submitted it to the Board's Inspection Division on June 6, 2011.

16. One of the questions in the Engagement Profile stated: "Have there been any changes made to the audit documentation subsequent to the documentation complete [*sic*] date[?]. If yes, please explain the nature of the changes below, and provide a summary log of when the changes were made." Deloitte's response in the Engagement Profile stated: "Archive was re-submitted on [a date just after the documentation completion date] in order to delete duplicate Permanent File binder records within the archive. No changes to archived file made."

Suddeth Created and Backdated the Three Memoranda

17. On June 11, 2011, two days before the Board's Inspection Division arrived at Deloitte's Pittsburgh office to inspect the Audit, Suddeth informed a member of the Audit engagement team that Suddeth intended to complete the Three Memoranda.

^{13/} *Gately & Associates* at 2 (quoting Section 104(a) of the Act).

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18. On the evening of June 12, 2011 and morning of June 13, 2011, Suddeth completed the Three Memoranda, identifying himself as their author and initialing by his typewritten name. He improperly backdated each of the Three Memoranda to a date on or just prior to the audit report release date for the Audit. The Three Memoranda do not indicate the date on which they had actually been completed.

Suddeth Caused the Three Memoranda to be Added to the Work Papers

19. On the morning of June 13, 2011, Suddeth caused the Three Memoranda to be added to the manual work paper binders.

20. The Audit work papers did not indicate the date the Three Memoranda actually were added to the work papers and the reasons they were added more than two months after the documentation completion date.

21. As a result of the conduct described above, Suddeth violated PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and PCAOB Auditing Standard No. 3, *Audit Documentation*.

Misleading Documents Provided
to the Board During the Board's Inspection

22. Field work for the Board's inspection took place during the weeks of June 13, 2011 and June 27, 2011. During field work, Suddeth knew that Deloitte made the manual work papers for the Audit, including the Three Memoranda, available to the Board's inspectors. Also during field work for the inspection, Suddeth communicated with personnel from the Board's Inspection Division. At no point in time did Suddeth disclose or instruct others to disclose to the Board's Inspection Division that he had improperly backdated the Three Memoranda and caused them to be improperly added to the Audit work papers after the documentation completion date, on the very morning that inspection field work began.

23. At no point in time did Suddeth inform or instruct others to inform the Board's Inspection Division that the Engagement Profile that he submitted the week before inspection field work was misleading as a result of his subsequently causing the misleading Three Memoranda to be added to the Audit work papers.^{14/} Under the

^{14/} Suddeth submitted to the Board's Inspection Division the Engagement Profile on June 6, 2011 and caused the Three Memoranda to be added to the work papers on June 13, 2011.

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circumstances, Suddeth's duty to cooperate with the Board's inspectors required that he make such a disclosure.

24. As a result of the conduct described above, Suddeth violated PCAOB Rule 4006, *Duty to Cooperate with Inspectors*.

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 Suddeth'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), Nathan M. Suddeth, CPA, is censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Nathan M. Suddeth, CPA, 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); and
- C. After two (2) years from the date of this Order, Nathan M. Suddeth, CPA, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 10, 2013