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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS

*In the Matter of HLB Mann Judd,  
Darryl Swindells, and Aidan Smith,*

*Respondents.*

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) PCAOB Release No. 105-2020-008  
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) June 29, 2020

By this Order, the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is imposing sanctions upon HLB Mann Judd (“Firm”), Darryl Swindells, and Aidan Smith (collectively, “Respondents”). The Board is:

- (1) revoking the registration of HLB Mann Judd<sup>1</sup> and imposing on the Firm a \$50,000 civil money penalty;
- (2) barring Swindells from being an associated person of a registered public accounting firm<sup>2</sup> and imposing on him a \$15,000 civil money penalty;
- (3) barring Smith from being an associated person of a registered public accounting firm<sup>3</sup> and imposing on him a \$10,000 civil money penalty; and
- (4) requiring Swindells and Smith each to complete 40 hours of continuing professional education (“CPE”), in addition to any CPE required in connection with any professional license, before filing a petition for Board consent to associate with a registered firm.

The Board is imposing these sanctions on the basis of its findings that: (a) Respondents violated PCAOB rules and auditing standards in connection with the Firm’s audits of an issuer client’s financial statements for six fiscal years; and (b) the Firm violated PCAOB rules and quality control standards.

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<sup>1</sup> The Firm may reapply for registration after three years from the date of this Order.

<sup>2</sup> Swindells may file a petition for Board consent to associate with a registered public accounting firm after three years from the date of this Order.

<sup>3</sup> Smith may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

**ORDER****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 Respondents.

**II.**

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (“Offer,” collectively “Offers”) 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 them and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”) as set forth below.<sup>4</sup>

**III.**

On the basis of Respondents’ Offers, the Board finds<sup>5</sup> that:

**A. Respondents**

1. **HLB Mann Judd** is a partnership located in Sydney, Australia. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Darryl Swindells** is a registered company auditor registered with the Australian Securities and Investments Commission (registration number 15487) and a chartered accountant licensed by the Institute of Chartered Accountants in Australia and New Zealand. Swindells was a partner of HLB Mann Judd before retiring in December 2019. He served, among other things, on the Firm’s Quality Control and Independence Committee, its Risk Management Committee, and its Audit & Corporate Advisory

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<sup>4</sup> The findings herein are made pursuant to the Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>5</sup> The Board finds that each Respondent’s conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 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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Divisional Committee. Swindells was also the Nominated Head of Quality Control for the Firm's audit practice, responsible—among other things—for ensuring the Firm had adequate resources to undertake its audit appointments and for compliance by Firm personnel with the Firm's quality control and independence procedures. Swindells 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).

3. **Aidan Smith** is a registered company auditor registered with the Australian Securities and Investments Commission (registration number 323195) and a chartered accountant licensed by the Institute of Chartered Accountants in Australia and New Zealand and the Institute of Chartered Accountants of Scotland. Smith is a partner of HLB Mann Judd and serves on the Firm's Audit & Corporate Advisory Divisional Committee. Smith 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**

4. Issuer A was, at all relevant times, an Australian corporation headquartered in Sydney, Australia. Issuer A's public filings disclose that, at the time of the relevant audits, Issuer A was in the business of installing and optimizing renewable power generation systems and delivering products and services designed to increase the efficiency of climate control and other systems. 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**

5. In February 2015, HLB Mann Judd registered with the Board. It did so in order to take on Issuer A as an audit client. Issuer A was the only issuer the Firm ever audited.

6. HLB Mann Judd issued a total of four audit reports for Issuer A. The Firm's first report concerned three years of financial statements—reaudits of Issuer A's fiscal year ("FY") 2012 and 2013 financial statements,<sup>6</sup> as well as an original audit of Issuer A's FY 2014 financial statements.<sup>7</sup> Thereafter, the Firm successively issued three audit

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<sup>6</sup> Reaudits of Issuer A's FY 2012 and FY 2013 financial statements were performed after Issuer A's audit committee, following discussions with its prior outside auditor, determined that its previously issued audited financial statements for those fiscal years should no longer be relied upon.

<sup>7</sup> Issuer A's fiscal year ran from July 1 through June 30. Issuer A prepared its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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reports on three years of Issuer A's financial statements: FY 2015, FY 2016, and FY 2017. All four audit reports contained unqualified opinions with going concern paragraphs.

7. Swindells was the engagement partner who authorized the issuance of the Firm's first three audit reports on the Issuer A engagement, and who had final responsibility for the audits of Issuer A's FY 2012 through FY 2016 financial statements. Smith was Swindells' successor on the engagement, served as the engagement partner who authorized the issuance of the Firm's fourth audit report on the Issuer A engagement, and had final responsibility for the audit of Issuer A's FY 2017 financial statements.

8. When HLB Mann Judd accepted Issuer A as an audit client and performed audits of six years of Issuer A's financial statements, the Firm was not in a position to adequately audit issuer clients under PCAOB rules and standards. It failed to (i) train its personnel to perform issuer audits in accordance with PCAOB standards and (ii) staff its audits of Issuer A with auditors qualified and knowledgeable to perform issuer audits in accordance with such standards. The Firm also lacked quality control policies and procedures that addressed the requirements of, or otherwise referenced considerations distinctive to, issuer audits. As a result, the Firm violated PCAOB rules, auditing standards, and quality control standards.

9. Swindells and Smith also violated PCAOB rules and auditing standards in connection with their audits of Issuer A. They did so in connection with three aspects of those audits: client acceptance and continuance; audit planning and performance; and documentation. With respect to audit planning and performance, those deficiencies arose in key areas of the audits: risk assessment for Swindells, and revenue testing and goodwill valuation testing for Swindells and Smith.

**D. Respondents Violated PCAOB Rules and Standards**

10. PCAOB rules require that registered public accounting firms and their associated persons comply with applicable auditing and related professional practice standards.<sup>8</sup> An auditor may express an unqualified opinion on an issuer's financial

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<sup>8</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards* (applicable as of December 31, 2016); PCAOB Rule 3200T, *Interim Auditing Standards* (applicable before December 31, 2016); PCAOB Rule 3400T, *Interim Quality Control Standards*. 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). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. While Respondents' conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

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statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>9</sup> PCAOB standards require, among other things, that an auditor plan and perform the audit with due professional care<sup>10</sup> and obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.<sup>11</sup>

11. As detailed below, Respondents failed to comply with PCAOB rules and standards.

**1. Client Acceptance and Continuance**

12. PCAOB auditing standards state that “before starting an initial audit” an auditor should “[p]erform procedures regarding the acceptance of the client relationship and the specific audit engagement.”<sup>12</sup> PCAOB auditing standards also require certain procedures at the beginning of an audit, including any subsequent audit of an existing client: “The auditor should perform the following activities at the beginning of the audit: . . . Perform procedures regarding the continuance of the client relationship and the specific audit engagement . . . .”<sup>13</sup>

13. In January 2015, Swindells accepted Issuer A as an audit client on behalf of HLB Mann Judd. Before doing so, however, Swindells failed to adequately consider whether the Firm was professionally competent to audit Issuer A in accordance with applicable PCAOB rules and standards, including whether it had (i) sufficiently qualified and experienced personnel knowledgeable of them and (ii) quality control policies and procedures to provide reasonable assurance of compliance with them.<sup>14</sup> Swindells failed to do so before the Firm’s initial audit engagement for Issuer A—the audit of its FY 2014 financial statements (“2014 Audit”) and the reaudit of its FY 2012 and FY 2013 financial

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<sup>9</sup> AS 3101.07 (formerly AU § 508), *Reports on Audited Financial Statements*. AS 3101 was subsequently replaced for audits of fiscal years ending on or after December 15, 2017. All references to AS 3101 in this Order are to the version of that standard in effect as of the Board’s December 31, 2016 reorganization of its auditing standards.

<sup>10</sup> See AS 1015.01 (formerly AU § 230), *Due Professional Care in the Performance of Work*.

<sup>11</sup> See AS 1105.04 (formerly Auditing Standard No. 15), *Audit Evidence*.

<sup>12</sup> AS 2101.18.a (formerly Auditing Standard No. 9), *Audit Planning*.

<sup>13</sup> AS 2101.06 (footnote omitted).

<sup>14</sup> See id.; see also AS 2101.18.

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statements (collectively, the “2012-2014 Audits”)—and he also failed to do so before each of the two audits thereafter (“2015 Audit” and “2016 Audit”).

14. Swindells undertook to address the question of whether the Firm could audit issuer clients in two work papers completed for the 2012-2014 Audits, each two pages long. The first, titled “Considerations - Audit Report,” contained without elaboration the statement: “I know from my work with HLB International’s Global Audit Working Group that there are very few differences between US Audit Standards and ASAs [Australian Auditing Standards], therefore we are justified in issuing an audit report under US Standards.” The second, titled “Comparison of ISAs [International Standards on Auditing] and PCAOB Standards,” referenced versions of PCAOB auditing standards effective before December 15, 2010—not those applicable to the work HLB Mann Judd was performing over four years later as part of the 2012-2014 Audits.

15. Swindells during the 2012 through 2016 Audits used audit programs—work paper templates setting out audit-related procedures and considerations for planning and performing an audit—that referenced Australian Auditing Standards, not PCAOB auditing standards. Swindells did so without adequately considering what, if any, differences relevant to the planning and performance of the audit existed between Australian Auditing Standards and PCAOB standards.

16. Smith similarly failed to perform sufficient client continuance procedures before the Firm’s audit of Issuer A’s FY 2017 financial statements (“2017 Audit”). Smith failed to consider the Firm’s professional competence to audit Issuer A in accordance with applicable requirements before the 2017 Audit. None of the client continuance procedures performed by Smith’s engagement team included acknowledgment, let alone evaluation, of auditing standards or quality control policies and procedures that were applicable to issuer audits. As with the previous audits supervised by Swindells, the audit programs used during the 2017 Audit referenced Australian Auditing Standards, not PCAOB auditing standards. Smith failed to consider what, if any, differences relevant to the planning and performance of the audit existed between Australian Auditing Standards and PCAOB auditing standards.

## **2. Training and Staffing**

17. PCAOB auditing standards required the Firm’s audits of Issuer A “to be performed by a person or persons having adequate technical training and proficiency as an auditor.”<sup>15</sup> The personnel assigned to the Issuer A audits were required to “undergo training adequate to meet the requirements of a professional,” which “must be adequate

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<sup>15</sup> AS 1010.01 (formerly AU § 210), *Training and Proficiency of the Independent Auditor*.

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in technical scope.”<sup>16</sup> Moreover, auditors “should be assigned to tasks . . . commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining.”<sup>17</sup> Swindells and Smith, as the engagement partners responsible for the Firm’s audits of Issuer A, “should know, at a minimum, the relevant professional accounting and auditing standards.”<sup>18</sup>

18. Other than a 20-minute session on “Information/discussion for foreign PCAOB registrants” that Smith attended in 2015, none of the members of the engagement teams assigned to the Firm’s audits of Issuer A received training in PCAOB auditing standards before or during those engagements. By failing in its audits of Issuer A to assign personnel with adequate technical training and proficiency in issuer audit work, and failing to exercise due professional care in ensuring the engagement teams had knowledge commensurate with their responsibilities in performing issuer audits, the Firm violated AS 1010 and AS 1015.

**3. Audit Deficiencies****Inadequate Risk Assessment**

19. PCAOB standards require auditors to perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud.<sup>19</sup> Auditors “should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.”<sup>20</sup> PCAOB standards state that fraud risks are significant risks.<sup>21</sup>

20. During the 2015 Audit and the 2017 Audit, the engagement team identified a fraud risk and significant risk with respect to revenue. During the 2014 Audit and the 2016 Audit, however, Swindells failed to identify improper revenue recognition as a fraud risk—even though the engagement team’s work papers acknowledged such a presumption was required—and failed to document any basis to overcome the

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<sup>16</sup> AS 1010.03.

<sup>17</sup> AS 1015.06.

<sup>18</sup> Id.

<sup>19</sup> See AS 2110.04 (formerly Auditing Standard No. 12), *Identifying and Assessing Risks of Material Misstatement*.

<sup>20</sup> AS 2110.68.

<sup>21</sup> See AS 2110.71.b.

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presumption that improper revenue recognition should have been identified as a fraud risk.<sup>22</sup>

Inadequate Revenue Testing

21. In each of the 2014, 2015, 2016, and 2017 Audits, the engagement team identified revenue as a significant account. PCAOB standards require auditors to perform substantive procedures for each relevant assertion of each significant account and disclosure.<sup>23</sup>

22. However, Swindells failed in each of the 2014, 2015, and 2016 Audits to perform any procedures to test revenue beyond a year-over-year comparison of revenue and inquiry of management. In performing these comparisons, Swindells failed to (1) develop an expectation at a sufficient level of precision to provide the necessary degree of assurance that differences that could be potential material misstatements, individually or when aggregated with other misstatements, would be identified for investigation,<sup>24</sup> or (2) establish a threshold for identifying significant differences and evaluate significant unexpected differences requiring further investigation.<sup>25</sup> As a result, the year-over-year revenue comparisons were not substantive analytical procedures, and Swindells failed to obtain sufficient appropriate audit evidence relating to the occurrence and valuation of revenue—that is, whether revenue was recorded in the proper period and in the proper amount—in each of the 2014, 2015, and 2016 Audits. Moreover, because the engagement team in the 2015 Audit identified and assessed a fraud risk relating to revenue, Swindells' failure to perform substantive procedures during the 2015 Audit additionally violated the requirement that an auditor perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risk.<sup>26</sup>

23. During the 2017 Audit, Smith and the engagement team identified the occurrence and allocation of revenue as a fraud risk and a significant risk. In FY 2017, Issuer A derived approximately 77 percent of its revenue from one operating segment ("Segment 1"). The majority of Segment 1's revenue (or 66 percent of Issuer A's total revenue) was recognized using the percentage of completion ("POC") method of

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<sup>22</sup> See AS 2401.83 (formerly AU § 316), *Consideration of Fraud in a Financial Statement Audit*.

<sup>23</sup> See AS 2301.36 (formerly Auditing Standard No. 13), *The Auditor's Responses to the Risks of Material Misstatement*.

<sup>24</sup> See AS 2305.17 (formerly AU § 329), *Substantive Analytical Procedures*.

<sup>25</sup> See AS 2305.20-.21.

<sup>26</sup> See AS 2301.11, .13.



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accounting.<sup>27</sup> To apply the POC method, some basis or standard for measuring the progress to completion for each contract at particular interim dates is necessary. Issuer A disclosed that its basis for measuring the stage of completion of a project was contract costs incurred to date as a percentage of the estimated total costs for the contract. Issuer A recognized gross revenue from projects in Segment 1 throughout a reporting period based on invoices issued to the customer for amounts specified in the contract with that customer (progress billings). Then, at the end of each reporting period, Issuer A recorded for each project an adjustment to the gross revenue amount to reflect management's calculated stage of completion for that project ("POC Adjustment").

24. To test gross POC revenue from projects in Segment 1, the engagement team selected a sample of revenue transactions recorded in the last three months of FY 2017 and compared the recorded amounts to the amounts specified in customer invoices obtained from Issuer A and in the contracts with those customers. The engagement team also obtained a schedule of projects outstanding at year end in which management calculated the POC Adjustment for each incomplete project using actual costs to date and estimated costs to complete. To test the POC Adjustments at year end, the engagement team selected two projects from the issuer's schedule of outstanding projects and (1) compared the costs to date for each selected project to cost information in reports from the issuer's project management system and (2) made inquiry of Issuer A's management and personnel about its process for estimating costs to complete the selected projects.

25. Smith and the engagement team, however, failed to perform adequate procedures to determine whether revenue was recorded in the proper period and properly valued. First, the engagement team limited its selection of revenue transactions for Segment 1 to sales recorded in the last three months of the year. These selections were not representative of the entire population, as all items in the population did not have an opportunity to be selected.<sup>28</sup> In addition, in its testing of the POC Adjustments recorded at year end, the engagement team failed to perform any procedures to test estimated costs of completion beyond inquiry of management and personnel.<sup>29</sup> Furthermore, the engagement team failed to test the accuracy and completeness of (1) the issuer's schedule of projects outstanding at year end and (2) the system-generated reports of

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<sup>27</sup> See International Accounting Standard ("IAS") 11, *Construction Contracts*. Under IFRS, when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are required to be recognized as revenue and expense respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

<sup>28</sup> See AS 1105.27; AS 2315.24 (formerly AU § 350), *Audit Sampling*.

<sup>29</sup> See AS 2805.02 (formerly AU § 333), *Management Representations*; see also 2501.11 (formerly AU § 342), *Auditing Accounting Estimates*.

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costs to date that the engagement team used in testing costs to date for the selected projects.<sup>30</sup>

26. In FY 2017, Issuer A derived approximately 11 percent of its revenue from product sales by its U.S. subsidiary. During the 2017 Audit, Smith failed to perform adequate procedures to test whether revenue relating to this subsidiary was recorded in the proper period and in the proper amount, as the engagement team failed to perform substantive procedures, including tests of details, that were specifically responsive to the assessed fraud risk.<sup>31</sup> The engagement team failed to perform any procedures beyond a year-over-year comparison of product sales revenue and inquiry of management, and that year-over-year comparison—which (like those performed in the previous audits) lacked a sufficiently precise expectation and a threshold for identifying significant differences—was not a substantive analytical procedure.<sup>32</sup>

Inadequate Goodwill Valuation Testing

27. Issuer A reported goodwill relating to one of its operating segments (“Segment 2”) in both its FY 2015 and FY 2016 financial statements. As of June 30, 2015 and 2016, Segment 2 goodwill represented approximately 40 percent and 35 percent, respectively, of Issuer A’s total assets.

28. Goodwill should be tested for impairment at least annually, and whenever there is an indication that the goodwill may be impaired.<sup>33</sup> Issuer A disclosed that impairment was determined by assessing the recoverable amount, or value-in-use, of Segment 2 as compared to its carrying amount. Issuer A’s management prepared an impairment analysis of goodwill allocated to Segment 2 at each fiscal year end that purported to calculate the recoverable amount of Segment 2 using discounted projected cash flows.

29. In both the 2015 and 2016 Audits, Swindells and the engagement teams identified a significant risk relating to the valuation of goodwill. Moreover, Swindells understood that management’s calculation of the recoverable amount of Segment 2 was an estimate.

30. In both audits, however, Swindells failed to adequately evaluate the reasonableness of that estimate. Swindells should have used one or a combination of the

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<sup>30</sup> See AS 1105.10.

<sup>31</sup> See AS 2301.11, .13.

<sup>32</sup> See AS 2305.17, .20-.21.

<sup>33</sup> See IAS 36, *Impairment of Assets*.

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following approaches in evaluating the reasonableness of Issuer A's recoverable amount estimate for Segment 2:

- a. Review and test the process used by management to develop the estimate.
- b. Develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate.
- c. Review subsequent events or transactions occurring prior to the date of the auditor's report."<sup>34</sup>

31. Swindells and the engagement teams failed to adequately perform any of these approaches. They understood that management used certain projected amounts—such as the projected number of new and renewing customers each year (megawatts installed), the projected average price per megawatt, and the associated projected cost of sales—as key assumptions in formulating the cash flow projections on which it based its impairment analysis. Swindells and the engagement teams, however, failed to perform adequate procedures to evaluate those assumptions or otherwise test the process for generating those projected amounts.<sup>35</sup> Nor did they develop an independent expectation of the estimated recoverable amount or review subsequent events or transactions to evaluate its reasonableness.

32. Swindells failed to perform adequate procedures even though he communicated in a report to Issuer A's audit committee during each of the 2015 and 2016 Audits that it was "highly likely" that impairment of goodwill for Segment 2 would be required absent significantly better performance in the future than had been achieved in recent years. Swindells also communicated to the audit committee during the 2016 Audit, in connection with Issuer A's valuation of Segment 2's goodwill, that Issuer A had a history of not meeting its forecasts. He was aware that, in its goodwill impairment analysis prepared during the 2015 Audit, Issuer A forecasted FY 2016 revenues of A\$7.5 million for Segment 2, but reported only A\$2.6 million in such revenue in its FY 2016 financial statements.<sup>36</sup>

33. As of June 30, 2017, goodwill relating to Segment 2 represented approximately 44 percent of Issuer A's total assets. Like Swindells in prior audits, Smith

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<sup>34</sup> AS 2501.10.

<sup>35</sup> See AS 2501.11.

<sup>36</sup> See AS 2501.09 ("The auditor normally should consider the historical experience of the entity in making past estimates as well as the auditor's experience in the industry.")

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and the engagement team during the 2017 Audit identified a significant risk relating to the valuation of goodwill.

34. Smith and the engagement team obtained an issuer-prepared impairment analysis relating to Segment 2's goodwill. That analysis calculated the recoverable amount of Segment 2 based largely on cash flow projections. Like Swindells in prior audits, however, Smith failed during the 2017 Audit to adequately evaluate the reasonableness of that recoverable amount estimate. Although Smith, like Swindells in previous audits, identified certain key assumptions as part of management's process in formulating those projections, Smith and the engagement team failed to perform adequate procedures to evaluate those assumptions or otherwise test the process for generating those projected amounts.<sup>37</sup> Smith also failed to test the accuracy and completeness of system-generated reports used to test certain other assumptions.<sup>38</sup> Nor did Smith develop an independent expectation of the estimated recoverable amount or review subsequent events or transactions to evaluate its reasonableness.<sup>39</sup>

35. Smith failed to perform adequate procedures even though (1) he knew that during the 2016 Audit Issuer A had forecasted A\$11.5 million in FY 2017 revenue for Segment 2 as part of its goodwill impairment analysis but reported only A\$4 million in its FY 2017 financial statements, and (2) he communicated in a report to Issuer A's audit committee during the 2017 Audit that the recoverability of goodwill for Segment 2 depended on significantly better performance in the future and that Issuer A had a history of not meeting its forecasts.<sup>40</sup>

#### **4. Documentation**

36. PCAOB auditing standards state: "A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."<sup>41</sup> Swindells and Smith failed to timely assemble final sets of audit documentation for their respective engagements.

37. Engagement teams at HLB Mann Judd used an archiving (or "lock-down") feature in HLB Mann Judd's audit software to assemble final sets of audit documentation.

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<sup>37</sup> See AS 2501.11.

<sup>38</sup> See id.; AS 1105.10.

<sup>39</sup> See AS 2501.10.

<sup>40</sup> See AS 2501.09.

<sup>41</sup> AS 1215.15 (formerly Auditing Standard No. 3), *Audit Documentation*.

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Swindells and Smith did the same in their Issuer A audits. However, they both failed to do so by the applicable documentation completion date. Specifically, Swindells assembled a final set of audit documentation for the 2012-2014 Audits over three months late, for the 2015 Audit one week late, and for the 2016 Audit five months late. Similarly, Smith assembled a final set of audit documentation for the 2017 Audit over three weeks late.

**5. Quality Control**

38. PCAOB rules and quality control standards require that a registered firm have a system of quality control for its auditing practice.<sup>42</sup> A firm should establish policies and procedures to encompass, among other things, personnel management, acceptance and continuance of clients and engagements, engagement performance, and monitoring.<sup>43</sup> As described below, HLB Mann Judd violated PCAOB quality control standards in several respects.

**Client Acceptance and Continuance**

39. A firm should establish policies and procedures “for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client.”<sup>44</sup> These policies and procedures should provide reasonable assurance that the firm “[u]ndertakes only those engagements that the firm can reasonably expect to be completed with professional competence” and “[a]ppropriately considers the risks associated with providing professional services in the particular circumstances.”<sup>45</sup>

40. Throughout the time period of the Issuer A audits, the Firm failed to establish and implement policies and procedures necessary to decide whether to accept or continue a client relationship with an issuer and whether to perform a specific engagement for that client. The Firm’s policies and procedures, for instance, prescribed two different forms of client acceptance documentation for use by engagement team members—one for audits of entities subject to the reporting requirements of Australia’s Corporations Act 2001 (“Corporations Act”) and the other for entities not subject to the Corporations Act—but neither reflected, nor otherwise directed the attention of engagement team members to, considerations applicable to audits of issuers. Moreover, HLB Mann Judd’s policies assigned to engagement partners the responsibilities to ensure appropriate acceptance and continuance procedures, to determine the nature and extent

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<sup>42</sup> See PCAOB Rule 3400T; QC § 20, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*.

<sup>43</sup> See QC § 20.07.

<sup>44</sup> QC § 20.14.

<sup>45</sup> QC § 20.15.

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of those procedures, and to determine whether the most recent acceptance or continuance decision remained appropriate for the current audit engagement, but did so without taking steps to ensure that the engagement partners assigned to the Firm's only issuer audit—Swindells and Smith—had sufficient knowledge, experience, training, and proficiency to carry out those responsibilities in connection with an issuer client.

### Personnel Management

41. A firm should establish policies and procedures to provide reasonable assurance that, among other things, (1) “[w]ork is assigned to personnel having the degree of technical training and proficiency required in the circumstances,” and (2) “[p]ersonnel participate in general and industry-specific continuing professional education and other professional development activities that enable them to fulfill responsibilities assigned.”<sup>46</sup> A firm's policies and procedures should also provide reasonable assurance that “individuals possess the kinds of competencies that are appropriate given the circumstances of individual client engagements,”<sup>47</sup> and that “a practitioner-in-charge of an engagement possesses the competencies necessary to fulfill his or her engagement responsibilities.”<sup>48</sup>

42. Throughout the time period of the Issuer A audits, the Firm failed to establish policies and procedures to provide reasonable assurance that personnel assigned to the Issuer A engagement had the technical training, proficiency, and competencies required to audit an issuer in accordance with PCAOB rules and standards. Moreover, the Firm failed to establish policies and procedures to ensure personnel assigned to Issuer A had proficiency with, and participated in continuing professional education related to, PCAOB standards and relevant regulatory requirements.

### Engagement Performance

43. A firm should establish policies and procedures to provide reasonable assurance “that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.”<sup>49</sup>

44. Throughout the time period of the Issuer A audits, the Firm failed to implement and maintain a system of quality control that would provide it with reasonable

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<sup>46</sup> QC § 20.13; QC § 40.02, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*.

<sup>47</sup> QC § 40.03.

<sup>48</sup> QC § 40.06.

<sup>49</sup> QC § 20.17.

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assurance that the work performed by the Issuer A engagement personnel would comply with applicable PCAOB professional standards. As described above, the Firm failed to have in place adequate policies and procedures to provide reasonable assurance that the Firm and its personnel performed and documented their work in accordance with PCAOB auditing standards. Among other things, HLB Mann Judd's deficient system of quality control failed to prevent the repeated failures (1) to plan and perform procedures in compliance with PCAOB standards during the course of the Issuer A audits and (2) to timely archive audit work papers in accordance with PCAOB standards.

Monitoring

45. A firm should establish policies and procedures to provide reasonable assurance that its quality control policies and procedures "are suitably designed and are being effectively applied."<sup>50</sup> Monitoring involves an ongoing consideration and evaluation of, among other things, the (1) "[r]elevance and adequacy of the firm's policies and procedures"; (2) "[a]ppropriateness of the firm's guidance materials and any practice aids"; and (3) "[e]ffectiveness of professional development activities."<sup>51</sup> HLB Mann Judd failed, both at the time it accepted Issuer A as an audit client and throughout the time period of the Issuer A audits, to adequately consider and evaluate whether the Firm's policies and procedures, its guidance materials and practice aids (including audit programs), and its professional development activities were being effectively applied to audits of issuers.

**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 the Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of HLB Mann Judd is revoked;
- B. After three years from the date of this Order, HLB Mann Judd may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Darryl Swindells and Aidan Smith are each barred from being an associated

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<sup>50</sup> See QC § 20.20; QC § 30.02, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

<sup>51</sup> Id.

**ORDER**

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);<sup>52</sup>

- D. After three years from the date of this Order, Darryl Swindells may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- E. After one year from the date of this Order, Aidan Smith may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Darryl Swindells and Aidan Smith are each required to complete, before filing a petition for Board consent to associate with a registered firm, forty hours of professional education and training relating to PCAOB auditing standards (such hours shall be in addition to, and shall not be counted in, the continuing professional education each is required to obtain in connection with any professional license); and
- G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), civil money penalties are imposed in the amounts of \$50,000 upon HLB Mann Judd, \$15,000 upon Darryl Swindells, and \$10,000 upon Aidan Smith. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. HLB Mann Judd shall pay the civil money penalty imposed within ten 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, 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 that identifies the payer 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 said cover letter and money order or check shall be sent to Office of the Secretary,

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<sup>52</sup> As a consequence of the bars, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to both Darryl Swindells and Aidan Smith. Section 105(c)(7)(B) of the Act provides: "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."



**ORDER**

Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006. Pursuant to the same procedures, Darryl Swindells shall pay \$3,750 of the penalty within ten days of the issuance of this Order, an additional \$3,750 by September 30, 2020, an additional \$3,750 by December 31, 2020, and the remaining \$3,750 by March 31, 2021. Pursuant to the same procedures, Aidan Smith shall pay \$2,500 of the penalty within ten days of the issuance of this Order, an additional \$2,500 by September 30, 2020, an additional \$2,500 by December 31, 2020, and the remaining \$2,500 by March 31, 2021. ***Respondents understand that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm, or any reapplication for registration pursuant to PCAOB Rule 2101.***

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

June 29, 2020