



**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 (the "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 submitted Offers of Settlement ("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 Respondents 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>2</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>3</sup>

**A. Respondents**

1. **Liggett & Webb, P.A.** is a professional association organized under the laws of the State of Florida, and headquartered in Boynton Beach, Florida. The Firm is licensed in Florida (License No. AD63352), Georgia (License No. ACF006411), and New York (License No. 101655). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **James Howard Liggett** is a certified public accountant licensed by the New Jersey State Board of Accountancy (License No. 20CC02486800) and the New York

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<sup>2</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>3</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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State Board of Accountancy (License No. 081585). At all relevant times, Liggett 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. **Derek Martin Webb** is a certified public accountant licensed by the Florida State Board of Accountancy (License No. AC0030565). At all relevant times, Webb 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**

4. This matter concerns Liggett's violations of PCAOB rules and standards in connection with the Audits. Liggett failed to exercise due professional care, including professional skepticism, and failed to obtain sufficient appropriate audit evidence concerning, among other things, transactions between Issuer A and an undisclosed related party ("Distributor").

5. This matter also concerns Webb's violations of AS 1220, *Engagement Quality Review*, while serving as the engagement quality review ("EQR") partner for the Audits.<sup>4</sup> During his EQR, Webb failed to properly evaluate, with due professional care, significant judgments made by Liggett and the engagement team concerning the transactions with Distributor.

6. This matter also concerns the Firm's violations of PCAOB rules and quality control standards by failing to establish quality control policies and procedures sufficient to provide it with reasonable assurance that its personnel would comply with applicable professional standards and the Firm's standards of quality.

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<sup>4</sup> 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 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017). While Respondents' conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity. With the exception of references to the reorganized numbering, all references to PCAOB rules and standards in this Order are to the versions of those rules and standards in effect at the time of audits discussed herein.

**ORDER****C. Respondents Violated PCAOB Rules and Standards in Connection with the Audits**

7. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>5</sup> An auditor may express an unqualified opinion on the financial statements of a company only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>6</sup>

8. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.<sup>7</sup> Due professional care requires that the auditor exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.<sup>8</sup>

9. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion expressed in the auditor's report, including obtaining reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.<sup>9</sup> Auditors must design and implement audit responses that address the identified and assessed risks of material misstatement.<sup>10</sup> In designing the audit procedures to be performed, the auditor should obtain more persuasive audit evidence the higher the auditor's assessment of risk.<sup>11</sup> Auditors are required to evaluate the results

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<sup>5</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards* (applicable as of December 31, 2016); and PCAOB Rule 3200T, *Interim Auditing Standards* (applicable before December 31, 2016).

<sup>6</sup> See AS 3101.07, *Reports on Audited Financial Statements*.

<sup>7</sup> See AS 1015.01, *Due Professional Care in the Performance of Work*.

<sup>8</sup> See AS 1015.07-.09; AS 2401.13, *Consideration of Fraud in a Financial Statement Audit*; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*.

<sup>9</sup> See AS 1105.04, *Audit Evidence*; AS 2401.01, .12.

<sup>10</sup> See AS 2301.03, .08.

<sup>11</sup> See AS 2301.09.

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of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.<sup>12</sup>

10. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's quality control standards.<sup>13</sup> PCAOB standards require a registered public accounting firm to establish policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.<sup>14</sup>

11. As detailed below, Respondents failed to comply with the aforementioned rules and standards, among others, in connection with the Audits.

**1. Background**

12. Issuer A's public filings disclosed that it operated an India-based mobile electronic wallet service used to pay for goods and services from a mobile phone. During the 2016 and 2017 fiscal years, Issuer A's business included purchasing mobile phone minutes at wholesale rates and reselling the minutes to distributors. Issuer A required the majority of its distributors to pay an advance from which Issuer A would draw down as the distributor purchased phone minutes. For a small minority of distributors, Issuer A sold mobile phone minutes on credit.

13. L&W served as the external auditor of Issuer A for the Audits. Liggett was the engagement partner for the Audits and Webb was the EQR partner. Liggett authorized the Firm's issuance of audit reports dated August 19, 2016 and July 6, 2017, expressing unqualified audit opinions. The reports were included with Issuer A's Forms 10-K filed with the Securities and Exchange Commission on August 19, 2016 and July 6, 2017, respectively.

14. Just prior to Issuer A's March 31, 2016 fiscal year-end, Issuer A purportedly sold approximately \$4.6 million of mobile phone minutes to Distributor on credit, resulting in a \$4.6 million receivable at year-end (the "Distributor Receivable"). As of March 31, 2016, the Distributor Receivable made up ninety-three percent of Issuer A's accounts receivable, fifty-four percent of its total current assets, and fifteen percent of the

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<sup>12</sup> See AS 2810.02, .33, *Evaluating Audit Results*.

<sup>13</sup> PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>14</sup> See QC § 20.17, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

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company's total assets. The Distributor Receivable also drove a 622 percent increase in Issuer A's receivable balance from year-end 2015.

15. Two months after Issuer A's fiscal 2016 year-end, during L&W's audit of Issuer A's 2016 financial statements, and while the Distributor Receivable was still outstanding, Issuer A management emailed Liggett and another member of the engagement team to inform them of Issuer A's intent to acquire Distributor "in the next two weeks." Attached to the email was a draft memorandum concerning the accounting for the proposed acquisition. Embedded in the draft memorandum attachment was a draft acquisition agreement between Issuer A and Distributor, as well as other supporting documents. The draft acquisition agreement identified the owners of Distributor as family members of, and businesses controlled by, managers and directors of Issuer A's Indian operations. Liggett did not review the draft acquisition agreement.

16. Issuer A's acquisition of Distributor closed on July 20, 2016 (the "Acquisition"). Under the terms of the Acquisition, Issuer A, among other things, was to receive more than five percent of Issuer A stock purportedly owned by Distributor in exchange for forgiveness of the outstanding Distributor Receivable.

17. In November 2016, as part of L&W's review of Issuer A's second quarter financial statements, Issuer A management provided Liggett and other members of the L&W engagement team with a revised memorandum describing the company's accounting for the Acquisition. Embedded in the updated memorandum was a copy of the executed acquisition agreement. Liggett failed to review the executed acquisition agreement either during the second quarter review or the 2017 fiscal year-end audit.

**2. Liggett Failed to Obtain Sufficient Appropriate Evidence Concerning the Distributor Receivable During the 2016 Audit**

18. During the 2016 audit, Liggett identified a fraud risk related to management recording fictitious receivables and also identified a significant risk of "overstatement" for Issuer A's accounts receivable balance, but failed to exercise due professional care, including professional skepticism, when performing audit procedures over that account.<sup>15</sup> He failed to gather sufficient appropriate audit evidence to determine whether the Distributor Receivable was properly valued.<sup>16</sup> Although Liggett understood while conducting the 2016 audit that the Distributor Receivable remained unpaid months after the fiscal 2016 year-end and that Issuer A planned to acquire Distributor in order to settle

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<sup>15</sup> See AS 1015.01, .07-.09; AS 2301.03, .08.

<sup>16</sup> See AS 1105.04.

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the Distributor Receivable, Liggett failed to read the draft acquisition agreement or inquire as to the status of the acquisition at any point during the 2016 audit.

19. In addition, although the Distributor Receivable was a significant unusual transaction due to its size and nature, Liggett failed to perform sufficient procedures in evaluating the receivable.<sup>17</sup> For example, Liggett failed to review the documentation underlying the 2016 sales to Distributor and he failed to evaluate Distributor's financial capability with respect to its obligations to repay the Distributor Receivable. He also failed to evaluate whether Issuer A's proffered business purpose for the sales to Distributor indicated that Issuer A might be engaged in fraudulent financial reporting or concealing the misappropriation of assets.<sup>18</sup>

20. Finally, Liggett failed to obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties, including the Distributor Receivable, were properly identified, accounted for, and disclosed in the financial statements.<sup>19</sup> Specifically, Liggett identified that Distributor shared a similar company name with another company disclosed by Issuer A in its public filings as wholly owned by, and holding Issuer A shares on behalf of, a beneficial owner of greater than 5 percent of Issuer A stock. Liggett also understood, based on management representations during the 2016 audit, that Distributor purportedly owned more than 5 percent of Issuer A's stock. Despite this information, Liggett failed to perform procedures, beyond inquiry of management, to determine whether the Distributor Receivable was properly presented and disclosed in the financial statements for the period ended March 31, 2016 as a related party transaction.<sup>20</sup>

**3. Liggett Failed to Obtain Sufficient Appropriate Evidence Concerning the Acquisition During the 2017 Audit**

21. During the 2017 audit, Liggett failed to exercise due professional care, including professional skepticism, and failed to gather sufficient appropriate audit evidence concerning the Acquisition.<sup>21</sup> Although Liggett received a memorandum from

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<sup>17</sup> See AS 2401.66-67A.

<sup>18</sup> See id. at .67.

<sup>19</sup> See AS 2410.02, *Related Parties*.

<sup>20</sup> See id. at .15.

<sup>21</sup> See AS 1015.01, .07-.09; AS 1105.04.

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Issuer A management detailing the company's accounting for the Acquisition, in which a copy of the executed acquisition agreement was embedded, Liggett neither retained the memorandum in the audit work papers nor reviewed the executed agreement. He failed to perform any other procedures to test the Acquisition.

22. Although the Acquisition was a significant transaction outside the normal course of Issuer A's business, Liggett failed to perform the required procedures for significant unusual transactions.<sup>22</sup> He failed to review the documentation underlying the Acquisition and he failed to evaluate Distributor's financial capability with respect to its obligations under the acquisition agreement. For instance, Liggett and the engagement team failed to verify that Distributor actually held the shares of Issuer A stock that it was supposed to return to Issuer A in exchange for forgiveness of the Distributor Receivable. He also failed to evaluate whether Issuer A's proffered business purpose for the Acquisition indicated that Issuer A might be engaged in fraudulent financial reporting or concealing the misappropriation of assets.

23. Finally, Liggett failed to obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties, including the Acquisition, were properly identified, accounted for, and disclosed in the financial statements.<sup>23</sup> Similar to the 2016 audit, Liggett was aware of the same information indicating Distributor might be a related party. Yet Liggett again failed to perform procedures, beyond management inquiry, to determine whether the Acquisition was, in fact, a related party transaction.<sup>24</sup>

**4. Webb Failed to Perform His Engagement Quality Reviews for the Audits with Due Professional Care**

24. An EQR is required for all audits conducted pursuant to PCAOB standards.<sup>25</sup> The standards provide that a firm may grant permission to an audit client to use the firm's audit report only after the EQR partner provides concurring approval of issuance of the report.<sup>26</sup>

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<sup>22</sup> See AS 2401.66-67A.

<sup>23</sup> See AS 2410.02, .15.

<sup>24</sup> See id. at .15.

<sup>25</sup> See AS 1220.01.

<sup>26</sup> See id. at .13.



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25. The EQR partner is responsible for evaluating the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued.<sup>27</sup> In an audit, the EQR partner is responsible for evaluating the engagement team's responses to significant risks identified by the team and the EQR partner.<sup>28</sup> The EQR partner should also evaluate whether the documentation that he or she reviewed when performing such procedures supports the conclusions reached by the engagement team with respect to the matters reviewed.<sup>29</sup> The EQR partner must perform his or her responsibilities with due professional care, including professional skepticism.<sup>30</sup> The documentation of an EQR should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the EQR partner, including the documents reviewed by the EQR partner.<sup>31</sup>

26. During the 2016 audit, the engagement team identified a fraud risk related to management recording fictitious receivables and also identified a significant risk of "overstatement" for Issuer A's accounts receivable.<sup>32</sup> The team's planned audit response to these significant risks was to test subsequent receipts, send out confirmations, and ascertain the adequacy of the allowance for bad debts.

27. While serving as the EQR partner for the 2016 audit, Webb failed to adequately evaluate the engagement team's response to the significant risks identified by the engagement team related to Issuer A's accounts receivable. Specifically, Webb failed to obtain an understanding of what, if any, procedures had been performed by the engagement team to evaluate the adequacy of the allowance for bad debts with respect to the Distributor Receivable.

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<sup>27</sup> See id. at .09.

<sup>28</sup> See id. at .10(b).

<sup>29</sup> See id. at .11.

<sup>30</sup> See id. at .12; AS 1015.07-.09.

<sup>31</sup> See AS 1220.19.

<sup>32</sup> See AS 2110.71b, *Identifying and Assessing Risks of Material Misstatement* ("fraud risk is a significant risk").

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28. In addition, the work papers did not include any documentation of the engagement team's consideration of whether an allowance for bad debt was necessary. Webb failed to adequately evaluate whether the engagement documentation he reviewed indicated that the engagement team responded appropriately to the significant risks they had identified relating to Issuer A's accounts receivable and supported the conclusions reached by the engagement team with respect to those risks.<sup>33</sup>

29. During the 2017 audit, the engagement team identified a significant risk concerning the equity account. The Acquisition materially affected Issuer A's equity account by purportedly requiring Distributor to transfer more than five percent of Issuer A stock back to Issuer A.

30. While serving as the EQR partner for the 2017 audit, Webb failed to adequately evaluate the engagement team's response to the significant risk related to the equity account. Specifically, he failed to obtain an understanding of what procedures were performed by the engagement team to test the Acquisition, including whether the engagement team had obtained an understanding of the business purpose of the transaction.

31. In addition, the work papers did not contain adequate documentation of audit procedures performed by the engagement team regarding the Acquisition. Webb therefore failed to adequately evaluate whether the engagement documentation he reviewed indicated that the engagement team responded appropriately to the significant risk they had identified relating to Issuer A's equity account and supported the conclusions reached by the engagement team with respect to that risk.<sup>34</sup>

32. During both of the Audits, Webb also failed to properly document his EQR because he did not identify any of the specific documents he reviewed.<sup>35</sup> As such, Webb's documentation failed to comply with the requirements of AS 1220.<sup>36</sup>

**5. The Firm Violated PCAOB Standards Related to Quality Control**

33. Throughout the relevant time period, the Firm violated PCAOB quality control standards because it failed to maintain an adequate system of quality control. As

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<sup>33</sup> See AS 1220.11.

<sup>34</sup> Id.

<sup>35</sup> Id. at .19.

<sup>36</sup> Id.

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described above, the Firm failed to have in place adequate policies and procedures to provide reasonable assurance that the work performed by its engagement personnel met applicable professional standards, regulatory requirements, and the Firm's standards of quality.<sup>37</sup> Among other things, the Firm's deficient system of quality control resulted in Firm personnel repeatedly failing to perform procedures necessary to comply with PCAOB standards during the Audits such as failing to: (i) exercise due professional care; (ii) perform the required procedures for significant unusual transactions; and (iii) obtain sufficient appropriate audit evidence to determine whether related parties and relationships and transactions with related parties, including the Acquisition, were properly identified, accounted for, and disclosed in the financial statements.

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

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Liggett & Webb, P.A. is hereby censured.
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), James Howard Liggett 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).<sup>38</sup>
- C. Pursuant to PCAOB Rule 5302(b), James Howard Liggett may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.
- D. If James Howard Liggett is permitted to associate once again with a registered public accounting firm, pursuant to Section 105(c)(4)(C) of the

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<sup>37</sup> QC § 20.17.

<sup>38</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to James Howard Liggett. Section 105(c)(7)(B) 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."

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Act and PCAOB Rule 5300(a)(3), for one year following the termination of the bar ordered in paragraph B, his 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: James Howard Liggett 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 AS 1201, *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 AS 1220, *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 AS 1205, *Part of the Audit Performed by Other Independent Auditors*;

- E. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date of this Order, Derek Martin Webb'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: Derek Martin Webb 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 AS 1201, *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 AS 1220, *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 AS 1205, *Part of the Audit Performed by Other Independent Auditors*;
- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes the following civil money penalties:

**ORDER**

1. Liggett & Webb, P.A., \$20,000;
2. James Howard Liggett, \$20,000; and
3. Derek Martin Webb, \$10,000.

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. Respondents shall pay these civil money penalties within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service 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, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006. ***By consenting to this Order, James Howard Liggett acknowledges 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.***

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

August 25, 2020