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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Alvarez & Associates, Inc., Certified
Public Accountants, and Vicente Alvarez, CPA,*

Respondents.

PCAOB Release No. 105-2022-039

December 21, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring Alvarez & Associates, Inc., Certified Public Accountants (“Firm”), and Vicente Alvarez, CPA (“Alvarez”);
- (2) suspending the Firm’s registration for two years from the date of this Order;
- (3) suspending Alvarez from being an associated person of a registered public accounting firm for two years from the date of this Order;
- (4) imposing a \$50,000 civil money penalty jointly and severally upon the Firm and Alvarez (collectively, “Respondents”);
- (5) requiring the Firm to undertake certain remedial actions as described in Section IV of this Order; and
- (6) requiring Alvarez to complete 40 hours of continuing professional education (“CPE”), in addition to any CPE required in connection with any professional license, within two years of the date of this Order.

The Board is imposing these sanctions on the basis of its findings that: (a) Respondents violated PCAOB rules and standards in connection with the fiscal year (“FY”) 2018 and FY 2019 audits of financial statements and accompanying supplemental information, and reviews of exemption reports (collectively, “Audits”) for multiple “non-carrying” broker-dealers (*i.e.*, a broker-dealer that does not maintain custody of customer funds and/or securities), (b) the

Firm violated PCAOB rules and quality control standards, and (c) Alvarez substantially contributed to the Firm's violations of PCAOB rules and quality control standards.

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 against Respondents pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1).

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the "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 are admitted, and except as provided herein in Section IV, Respondents each consent to the entry of this Order as set forth below.¹

III.

On the basis of Respondents' Offers, the Board finds that:²

¹ The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

² 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 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.

A. Respondents

1. **Alvarez & Associates, Inc., Certified Public Accountants** is a corporation organized under the laws of the state of California and headquartered in Northridge, California. The Firm was, at all relevant times, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice by the California Board of Accountancy (license no. 8127) and in additional states.³

2. **Vicente “Vince” Alvarez, CPA** is the Firm’s 95% owner and managing partner, and a certified public accountant licensed by the California Board of Accountancy (license no. 101046) and in additional jurisdictions.⁴ He is 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). He was the engagement partner for each of the relevant Audits.

B. Broker-Dealers

3. This matter involves 43 Audits performed for 39 broker-dealers who were, at all relevant times, a “broker” or “dealer,” as defined in Section 110(3) and (4) of the Act and PCAOB Rule 1001(b)(iii) and (d)(iii). In addition, at all relevant times, the 39 broker-dealers were non-carrying brokers that claimed exemption from the requirements of Rule 15c3-3 under the Securities Exchange Act of 1934 (“Rule 15c3-3”).⁵

C. Summary

4. This matter concerns the Firm’s failure to comply with AS 1220, *Engagement Quality Review* (“AS 1220”),⁶ with respect to the Audits of nine broker-dealers for FY 2019. With respect to each of these broker-dealer Audits, the Firm failed to document a concurring approval of issuance from the engagement quality reviewer, which was required pursuant to AS 1220.

³ The Firm is also licensed in the following additional states: Utah, Oregon, Washington, and Kansas.

⁴ Alvarez is also licensed in New York and Washington D.C.

⁵ 17 C.F.R. § 240.15c3-3.

⁶ All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the relevant broker-dealer Audits.

5. The Firm and Alvarez also violated AS 1215, *Audit Documentation* (“AS 1215”) by repeatedly failing to timely assemble a complete and final set of audit documentation assembled for retention (“archived”) by the documentation completion date (i.e., within 45 days after the report release date) for 43 broker-dealer Audits for FY 2018 and FY 2019. The Firm and Alvarez further violated AS 1215 by repeatedly failing to document the information required by AS 1215 when audit documentation was changed after the documentation completion date for 25 broker-dealer Audits for FY 2018 and FY 2019.

6. The Firm violated QC § 20, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice* (“QC § 20”) because the Firm failed to establish an appropriate system of quality control to ensure that its engagement personnel complied with AS 1215 and AS 1220.

7. Finally, this matter concerns Alvarez’s direct and substantial contribution to the Firm’s violations of PCAOB rules and standards concerning the requirements for engagement quality reviews, audit documentation, and quality control. With respect to each of the Firm’s audit and attestation violations and quality control violations, Alvarez took or omitted to take actions knowing, or recklessly not knowing, that his actions and omissions would directly and substantially contribute to the Firm’s violations of AS 1220, AS 1215, and QC § 20. As a result, Alvarez violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations* (“PCAOB Rule 3502”).

D. The Firm Violated PCAOB Rules and Auditing Standards Relating to Engagement Quality Reviews

8. PCAOB rules provide that a registered public accounting firm and its associated persons comply with the Board’s auditing and related professional practice standards.⁷

9. AS 1220 requires that an engagement quality review be performed on all audits, and certain attestation engagements, including reviews of a broker-dealer’s exemption report, that are conducted pursuant to PCAOB standards.⁸ In addition, a firm may grant permission to a client to use an audit or attestation report only after an engagement quality reviewer provides concurring approval of issuance.⁹

⁷ PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; Rule 3200, *Auditing Standards*.

⁸ AS 1220.01.

⁹ *See id.* at .13, .18C.

10. Documentation of an engagement quality review should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, including information that identifies the date the engagement quality reviewer provided concurring approval of issuance, or if no concurring approval of issuance was provided, the reasons for not providing the approval.¹⁰

11. An engagement quality reviewer must be independent of the company, perform the engagement quality review with integrity, and maintain objectivity in performing the review.¹¹ To maintain objectivity, the engagement quality reviewer and others who assist the reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.¹²

12. The Firm failed to document the engagement quality reviewer's concurring approval of issuance for nine FY 2019 Audits. In each instance, the documentation of the engagement quality review failed to contain sufficient information to enable an experienced auditor having no previous connection with the engagement to understand the date that engagement quality reviewer provided concurring approval of issuance. As a result, the Firm repeatedly violated AS 1220.19.

13. Two of the Firm's FY 2019 engagement quality reviews also failed to comply with AS 1220 when the engagement quality reviewer failed to maintain objectivity by becoming part of the engagement team. In the two FY 2019 Audits, the engagement quality reviewer assumed the role of an engagement team member by directly performing certain audit procedures and preparing work papers for those two broker-dealer audits. Specifically, in one engagement, the engagement quality reviewer performed the audit procedures and prepared a work paper related to, the evaluation of the exemption provisions under Rule 15c3-3 that the broker-dealer identified in its 2019 exemption report. In another engagement, the engagement quality reviewer performed procedures and prepared a work paper related to the substantive testing of a certain financial statement account, which represented 82% of the broker-dealer's total assets as of December 31, 2019. Nevertheless, the Firm granted permission to the clients to use the engagement reports even though the engagement quality reviewer failed to maintain objectivity in violation of AS 1220.06 and .07.

¹⁰ See *id.* at .19.

¹¹ See *id.* at .06.

¹² See *id.* at .07.

E. The Firm and Alvarez Violated the Audit Documentation Standard by Failing to Archive Work Papers and Properly Document Modifications After the Documentation Completion Date

14. PCAOB standards require that “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*).”¹³ The standards also provide that documentation added after the documentation completion date must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.¹⁴

15. As the engagement partner, Alvarez was responsible for ensuring that the engagement teams archived the final set of audit documentation by the documentation completion date. During FY 2018 and 2019, the Firm’s engagement teams, led by Alvarez, failed to assemble a complete and final set of audit documentation for retention by the documentation completion date for 43 broker-dealer Audits. The Firm belatedly archived the work papers for these broker-dealer Audits between six and 19 months after the documentation completion date. As a result, the Firm and Alvarez repeatedly violated AS 1215.15.

16. The Firm’s engagement teams also modified certain work papers for 25 broker-dealer Audits after the documentation completion date, but failed to document the information required by AS 1215.16. Specifically, without explanation, the engagement teams inserted certain work papers into the audit file and added electronic sign-offs after the relevant document completion dates. In some instances, Respondents acknowledged, in response to PCAOB inquiries, that modifications were made to the audit work papers, but could not identify what changes were made to the audit work papers. As a result, the Firm and Alvarez repeatedly violated AS 1215.16.

F. The Firm Violated the Quality Control Standards

17. PCAOB rules require registered public accounting firms to comply with the Board’s quality control standards.¹⁵ PCAOB quality control standards, in turn, require each registered firm to effectively design, implement, and maintain a system of quality control for

¹³ See AS 1215. at .15.

¹⁴ See *id.* at .16.

¹⁵ See PCAOB Rule 3400T, *Interim Quality Control Standards*.

the firm's accounting and auditing practice.¹⁶ The quality control system should include 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.¹⁷ Among other areas, a firm's policies and procedures should address the documentation of each engagement in accordance with applicable professional standards.¹⁸ Further, PCAOB quality control standards also provide that policies and procedures, including monitoring procedures, should be established to provide the firm with reasonable assurance that its system of quality control was suitably designed and being effectively applied.¹⁹

18. Throughout the relevant period, the Firm lacked sufficient policies and procedures to provide reasonable assurance that the work performed by engagement personnel met applicable professional standards and the Firm's standards of quality with regard to its engagement quality reviews. Specifically, the Firm's policies did not require that the engagement quality reviewer document his concurring approval of issuance as required by AS 1220. The Firm also failed to maintain policies and procedures providing reasonable assurance that the engagement quality reviewer would maintain his objectivity.²⁰

19. Throughout the relevant period, the Firm also lacked sufficient policies and procedures to provide reasonable assurance that the work performed by engagement personnel met applicable professional standards and the Firm's standards of quality with regard to audit documentation. Specifically, the Firm failed to have sufficient policies and procedures, including monitoring procedures, to ensure that work papers were archived within the documentation completion period, or that modifications in the work papers after the documentation completion date be made in compliance with AS 1215.

20. Accordingly, the Firm violated QC § 20.17, .18 and .20.

¹⁶ QC §§ 20.01 and 20.02.

¹⁷ *See id.* at .17.

¹⁸ *See id.* at .18.

¹⁹ *See id.* at .20.

²⁰ AS 1220.04, Note.

G. Alvarez Contributed to the Firm's Violations of PCAOB Rules, Auditing Standards, and Quality Control Standards

21. PCAOB Rule 3502 states that “[a] person associated with a registered public accounting firm shall not take or omit to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting firm of the Act, the Rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.”

22. Alvarez, the principal shareholder, owns 95% of the Firm and served as the Firm's managing and quality control partner for all relevant periods. He was also the engagement partner for all of the Firm's Audits during the relevant period. Accordingly, Alvarez was responsible for ensuring that the Firm complied with PCAOB rules and standards. Alvarez knew, or was reckless in not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of AS 1220, AS 1215, and QC § 20, as described above. As a result, Alvarez violated PCAOB Rule 3502.

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), Alvarez & Associates, Inc., Certified Public Accountants and Vicente Alvarez, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Alvarez & Associates, Inc., Certified Public Accountants is suspended for two years;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Vicente Alvarez, CPA is suspended for two years 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);²¹

- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$50,000 is imposed upon Alvarez & Associates, Inc., Certified Public Accountants and Vicente Alvarez, CPA jointly and severally.
1. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.
 2. The Firm and Alvarez shall pay this civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the Firm and Alvarez as respondents 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.
 3. If timely payment is not made, additional interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
 4. With respect to any civil money penalty amounts that Respondents shall pay pursuant to this Order, Respondents shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any

²¹ As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Alvarez. 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."

payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages in any private action brought against Respondents based on substantially the same facts as set out in the findings in this Order.

- E. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm is required:
1. Within 90 days of the entry of this Order, to establish, revise, or supplement, as necessary, policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that: (a) Firm personnel will document each engagement, including documentation of the engagement quality reviewer's concurring approval of issuance, in accordance with applicable professional standards; (b) the Firm will properly archive audits in accordance with professional standards, and properly document any changes to the audit documentation after the documentation completion date; and (c) the Firm has established monitoring procedures sufficient to enable it to obtain reasonable assurance that its system of quality control is suitably designed and being effectively applied.
 2. Within 120 days of the entry of this Order, to provide a certification, signed by its managing partner to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.E.1 above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Firm shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request.
- F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Vicente Alvarez is required to complete, within two years from the date of this Order, 40 hours of professional education and training relating to PCAOB auditing standards and covering, among other topics, audit documentation in accordance with AS 1215, *Audit Documentation*, and the performance of engagement quality reviews in accordance with AS 1220, *Engagement Quality Review* (such hours shall be in addition to, and shall not be counted in, the

continuing professional education he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 21, 2022