



**ORDER**

**II.**

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to 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 Respondent's Offer, the Board finds<sup>3/</sup> that:

**A. Respondent**

1. Paul W. Marchant, 68, of Wayne, New Jersey, is a certified public accountant licensed under the laws of the state of New Jersey (license no. 20CC00588000). At all relevant times, Respondent served as an engagement team member on audits and reviews of issuer financial statements performed by the registered public accounting firm, Jeffrey & Company ("J&C" or the "Firm"), including each audit and review discussed in this Order. For several of those audits and reviews, Respondent served as the sole staff member on the engagement team, reporting directly to the engagement partner. Respondent was an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and

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<sup>2/</sup> The findings herein are made pursuant to the Respondent's Offer and is not binding on any other persons or entities in this or any other proceeding.

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



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PCAOB Rule 1001(p)(i). During his tenure at the Firm, Respondent was supervised by a partner at the Firm (the "Firm Partner").

### B. Summary

2. The Act authorizes the Board to impose disciplinary sanctions for a registered firm's or associated person's noncooperation with a Board investigation.<sup>4/</sup> Board rules include procedures for implementing that authority.<sup>5/</sup> As described below, Respondent altered and created audit documentation related to certain of the Firm's audits prior to providing that documentation to the staff of the Division of Enforcement and Investigations ("Division") during the course of a Board investigation. Respondent also falsely testified in the Board investigation that specific work papers in the audit documentation produced to the Division were created at the time of the relevant audit and prior to the issuance of the relevant audit report, when he knew they were not. In addition, Respondent violated Auditing Standard No. 3, *Audit Documentation* ("AS3"), by adding documents to the audit documentation after the documentation completion date, without indicating the date the information was added to the work papers, the name of the person who prepared the additional documentation, and the reason for adding it.

### C. Respondent Failed to Cooperate with a PCAOB Investigation and Violated PCAOB Rules and Auditing Standards

3. Noncooperation with a Board investigation includes knowingly making any false material declaration or making or using any other information, including any book, paper, document, record, recording, or other material, knowing the same to contain any false material declaration.<sup>6/</sup>

4. PCAOB rules require that registered public accounting firms and their associated persons comply with the Board's auditing and related professional practice standards.<sup>7/</sup> PCAOB standards require that auditors prepare audit documentation in

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<sup>4/</sup> See Section 105(b)(3) of the Act.

<sup>5/</sup> See PCAOB Rule 5110, *Noncooperation with an Investigation*; PCAOB Rule 5200(a)(3), *Commencement of Disciplinary Proceedings*.

<sup>6/</sup> PCAOB Rule 5110(a)(2).

<sup>7/</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*.



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connection with each engagement conducted under PCAOB standards.<sup>8/</sup> Among other things, audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to "determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review."<sup>9/</sup>

5. PCAOB auditing standards also require that certain written disclosures be included if the auditor adds to the audit documentation after the documentation completion date.<sup>10/</sup> The report release date for an audit is defined as "the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements."<sup>11/</sup> The documentation completion date is defined as a date not more than 45 days after the report release date.<sup>12/</sup> Audit documentation must not be deleted or discarded after the documentation completion date; however, information may be added.<sup>13/</sup> Any information added must indicate the date the information was added, the name of the person who prepared the additional information, and the reason for adding it.<sup>14/</sup>

6. As detailed below, Respondent failed to cooperate with a Board investigation and violated PCAOB rules and standards when he: (1) improperly altered, created, backdated and added to audit work papers; (2) assisted the Firm in producing these false work papers to the Division; and (3) falsely testified in connection with a Board investigation that these documents represented the Firm's work papers completed during the audit, when he knew they did not.

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<sup>8/</sup> AS3 ¶ 4.

<sup>9/</sup> Id. ¶ 6.

<sup>10/</sup> Id. ¶ 16.

<sup>11/</sup> Id. ¶ 14.

<sup>12/</sup> Id. ¶ 15.

<sup>13/</sup> Id. ¶ 16.

<sup>14/</sup> Id.

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The Audits

7. At all relevant times, "Issuer A" and "Issuer B" were each an "issuer" as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

8. J&C performed the audits of both Issuer A's and Issuer B's financial statements, for the years ended December 31, 2009, 2010, and 2011, and reviews of the quarters ended therein. The Firm's audit reports stated that each of Issuer A's and Issuer B's December 31, 2009, 2010 and 2011 financial statements presented fairly, in all material respects, the issuer's financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. Each of the audit reports included an unqualified opinion, and was included in a Form 10-K and/or Form 10-K/A filed with the U.S. Securities and Exchange Commission ("Commission").

9. By mid-April 2012, the Firm had released one or more audit reports related to each of Issuer A's and Issuer B's 2009 through 2011 financial statements, and those reports were included in the issuers' Form 10-Ks and Form 10-K/As filed with the Commission. Therefore, the documentation completion date for each of these audits and preceding reviews had occurred by the end of May 2012.

Noncooperation with the Board's Investigation

10. On June 12, 2012, as part of an informal inquiry, the Division requested the production of certain work papers and information concerning certain of the Firm's issuer audit engagements (the "Document Request"), including the Firm's audit documentation for the audits and reviews it performed for the 2009 through 2011 financial statements of Issuer A and Issuer B.

11. On August 13, 2012 and September 12, 2012, as part of a formal investigation, the Division issued Accounting Board Demands ("ABDs") to the Firm and Respondent, respectively. The ABDs requested, among other things, the same audit documentation that was the subject of the Document Request. In response, the Firm referred the Division to the documents it previously produced in response to the Document Request concerning Issuer A.

*Respondent's Conduct in the Document Productions*

12. Respondent had served as an engagement team member on the audits and reviews of Issuer A's and Issuer B's 2009-2011 financial statements. In the summer of 2012, shortly after receiving the Document Request, the Firm Partner instructed Respondent to review the audit documentation for the Firm's audit of Issuer A's 2009 financial statements, before it was produced to the Division. The Firm Partner



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directed Respondent to identify any audit work papers that were missing, inaccurate, or that contained the Firm Partner's handwriting.

13. In the course of his review, Respondent showed the Firm Partner several hard copy work papers that the Firm Partner had completed for the audit of Issuer A's 2009 financial statements, including the "Engagement Completion Document," the "Client Information and Business Risk Form," the "Understanding of Internal Control Documentation Form," and the "Fraud Risk Information Form." Each of these documents was originally completed by the Firm Partner and contained the Firm Partner's handwriting. The audit report release date for that audit was prior to June 30, 2010. The documentation completion date, therefore, was prior to August 14, 2010.

14. After Respondent showed the Firm Partner the aforementioned work papers, Respondent made several changes to those work papers to indicate that Respondent, rather than the Firm Partner, had completed that audit work and documentation. Specifically, Respondent erased parts of three of the foregoing documents that the Firm Partner had previously handwritten. Respondent then rewrote the erased portions of these work papers in his own handwriting, and changed the "Completed by" information on each of the work papers to indicate that he had completed the work on a date during the audit, instead of the Firm Partner. For the fourth document, Respondent created a new version, in his own handwriting, to replace the original created by the Firm Partner. On that document as well, Respondent wrote his own name in the "Completed by" section of the work paper, and backdated it to a date during the audit. Respondent added these altered and newly created documents to the audit documentation. However, Respondent did not indicate the date that the work papers were altered or added to the audit documentation, or the reason they were altered or added after the relevant documentation completion date.

15. In July 2012, Respondent also created and added a new trial balance tie-out work paper to the audit documentation for the audit of Issuer A's 2009 financial statements. In doing so, Respondent backdated the new work paper to a date prior to the date of the audit report, and failed to document the reason that he added that work paper to the audit documentation after the relevant documentation completion date.

16. Also in late June 2012 and late October of 2012, the Firm Partner directed Respondent to review the audit documentation for any missing documents in the Firm's work papers for its reviews of Issuer A's and Issuer B's quarterly financial statements conducted in 2009, 2010 and 2011, before that documentation was produced to the Division. Respondent then identified missing audit documentation from those review work papers, and created audit documentation for those reviews. In doing so, Respondent backdated the new audit documentation to dates between 2009 and 2011. These documents were inserted into the work papers prior to their production to the



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Division. However, Respondent did not indicate the date the new documentation was added, the name of the person who prepared the additional documentation, and the reason that the new documentation was added after the relevant documentation completion dates.

*Respondent's Testimony*

17. As a result of the foregoing conduct, Respondent knew that the audit documentation related to Issuer A and Issuer B that the Firm produced to the Division in connection with the Board's investigation included altered and newly created audit documentation. Respondent also knew that the altered and newly created documentation was being produced as though it had been part of the original audit documentation, created during the relevant audits and reviews and before the relevant documentation completion dates.

18. In November 2012 investigative testimony before the Division, when asked whether he had made changes to specific work papers in the audit documentation for the audit of Issuer A's 2009 financial statements, Respondent denied making changes to those documents after being made aware of the investigation. Two months later, in investigative testimony before the Division, Respondent admitted that he had altered and added those work papers, as described above, before they were produced to the Division.

19. As a result of the conduct described above, Respondent failed to cooperate with a Board investigation, and Respondent violated AS3, *Audit Documentation*.

**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 Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Paul W. Marchant is hereby censured; and
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Paul W. Marchant, 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).

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- C. After three (3) years from the date of this Order, Respondent may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

May 6, 2014