PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Scott J. Reams, CPA, Brandon R. Keyes, CPA, and James C. Budge, CPA,

Respondents.

PCAOB Release No. 105-2022-038

December 20, 2022

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

(1) barring Scott J. Reams, CPA ("Reams") from being an associated person of a registered public accounting firm[1] and imposing a $35,000 civil money penalty upon Reams;

(2) barring Brandon R. Keyes, CPA ("Keyes") from being an associated person of a registered public accounting firm[2] and imposing a $35,000 civil money penalty upon Keyes; and

(3) barring James C. Budge, CPA ("Budge") from being an associated person of a registered public accounting firm[3] and imposing a $25,000 civil money penalty upon Budge.[4]

The Board is imposing these sanctions on the basis of its findings that Respondents violated PCAOB rules and standards in connection with two audits of an issuer.

[1] Reams may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

[2] Keyes may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

[3] Budge may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

[4] Reams, Keyes, and Budge are referred to in this Order, collectively, as the "Respondents."

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 institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (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 Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.[5]

III.

On the basis of Respondents' Offers, the Board finds that:[6]

A. Respondents

1. **Scott J. Reams** was, at all relevant times, a certified public accountant licensed by the states of California (license no. 82008) and Utah (license no. 6814250-2601). Reams was, at all relevant times, a partner of WSRP, LLC ("WSRP"). Reams served as the engagement partner for WSRP's integrated audit of the March 31, 2019 consolidated financial statements and internal control over financial reporting of Freedom Holding Corp. ("Freedom") ("2019 Audit"). Reams was, at all relevant times, 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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[5] 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.

[6] 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.

2. **Brandon R. Keyes** was, at all relevant times, a certified public accountant licensed by the state of Utah (license no. 7780361-2601). Keyes was a senior manager at WSRP from December 2017 to 2019, and a partner of WSRP from 2020 to the present. Keyes served as a senior manager for the 2019 Audit and served as the engagement partner for WSRP's March 31, 2020 integrated audit of the consolidated financial statements and internal control over financial reporting of Freedom ("2020 Audit"). Keyes was, at all relevant times, 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. **James C. Budge** was, at all relevant times, a certified public accountant licensed by the state of Utah (license no. 162679-2601). Budge was, at all relevant times, a partner of WSRP. Budge served as the engagement quality review ("EQR") partner for the 2019 and 2020 Audits. Budge was, at all relevant times, 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. Relevant Entities

4. **WSRP, LLC** was, at all relevant times, a limited liability company organized under the laws of the state of Utah and headquartered in Salt Lake City, Utah. At all relevant times, WSRP was licensed by the state of Utah (license no. 109193-2603), among others. WSRP was, at all relevant times, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. WSRP performed an integrated audit of Freedom's 2019 and 2020 financial statements and internal control over financial reporting. WSRP issued unqualified opinions for both audits.

5. **Freedom Holding Corp.** was, at all relevant times, a Nevada corporation headquartered in Almaty, Kazakhstan, with supporting administrative offices in Russia, Cyprus, and the United States. Freedom's public filings disclose that it has several operating subsidiaries that engage in a broad range of activities in the securities industry, including retail securities brokerage, investment research, investment counseling, securities trading, and investment banking and underwriting services in Eastern Europe and Central Asia. At all relevant times, one individual served as the CEO, Chair, and the controlling (over 70%) shareholder of Freedom ("Freedom CEO"). Freedom was, at all relevant times, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

6. In 2014, the Freedom CEO created a corporation ("**the Belize Affiliate**") that, at all relevant times, was registered and licensed as a broker dealer in Belize. The Belize Affiliate is an introducing broker, and its customers are retail investors many of whom are located in Eastern Europe. The Freedom CEO is the sole owner of the Belize Affiliate. Freedom and the Belize Affiliate were identified by Freedom as related parties under U.S. Generally Accepted Accounting Principles ("U.S. GAAP").

C. Summary

7. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the 2019 and 2020 Audits. Reams authorized WSRP's issuance of audit reports containing unqualified opinions for the 2019 Audit, and Keyes authorized WSRP's issuance of audit reports containing unqualified opinions for the 2020 Audit. For both Audits, Budge provided concurring approval of issuance of WSRP's audit reports.

8. Reams and Keyes identified and knew there were risks of material misstatement with respect to revenues and margin loans receivable related to transactions with the Belize Affiliate. Reams and Keyes also knew that: (a) transactions with the Belize Affiliate constituted the majority of Freedom's reported revenue in 2019 and 2020; (b) the Belize Affiliate and Freedom were related parties, both of which were under control of the Freedom CEO; and (c) Reams and Keyes did not have access to the records and personnel of the Belize Affiliate needed to evaluate material portions of Freedom's financial statements.

9. Notwithstanding this knowledge, Reams and Keyes failed to adequately respond to risks of material misstatement. First, Reams and Keyes failed to comply with PCAOB auditing standards when evaluating Freedom's identification of and accounting for the relationship and transactions between Freedom and the Belize Affiliate. Second, Reams and Keyes failed to identify that Freedom's 2019 and 2020 financial statements did not contain necessary disclosures regarding its relationship with the Belize Affiliate. Third, Reams and Keyes failed to gather sufficient appropriate audit evidence to evaluate Freedom's reported margin loans to the Belize Affiliate. Fourth, Reams and Keyes failed to gather sufficient appropriate audit evidence to evaluate commission revenue from securities transactions processed by Freedom on behalf of the Belize Affiliate. Fifth, Reams and Keyes failed to evaluate whether the Belize Affiliate was a variable interest entity that, potentially, may have needed to be consolidated with Freedom.

10. In addition, Budge violated AS 1220, *Engagement Quality Review*, by providing his concurring approval for the issuance of the Firm's 2019 and 2020 audit reports without performing the required EQRs with due professional care.

D. Background: The Related Party Relationship Between Freedom and the Belize Affiliate

11. In 2014, Freedom's CEO created FFIN Securities, Inc. This company subsequently became Freedom in 2015, as a result of a reverse merger with an existing inactive issuer, BMB Munai, Inc. As noted previously, Freedom's CEO is also the majority shareholder of Freedom.

12. At all relevant times, the Belize Affiliate acted as an introducing broker to Freedom. The Belize Affiliate's retail customers requested trades from the Belize Affiliate, which the Belize Affiliate passed to Freedom. Freedom then passed these orders to a prime broker for execution. Funding for these transactions could be provided by margin loans from Freedom to the Belize Affiliate, which in turn were extended to the Belize Affiliate's retail customers. The margin loans were collateralized by the securities purchased for the Belize Affiliate's customers.

13. Freedom recorded these transactions in the name of the Belize Affiliate. Reams and Keyes understood at the time of the Audits, however, that these transactions were for the benefit of the Belize Affiliate's retail customers, not for the Belize Affiliate itself.

14. In 2019, the Belize Affiliate was responsible for 87% of Freedom's reported commission and fee revenue and 68% of margin loans receivable. In 2020, the Belize Affiliate was responsible for 81% of both Freedom's reported commission and fee revenue and margin loans receivable.

15. As discussed below, neither Reams nor Keyes took sufficient steps to understand the transactions between the Belize Affiliate and its retail customers. Neither engagement partner had any contact with the Belize Affiliate's retail customers, nor knew their identities. Also, neither engagement partner had access to the terms of the agreements between the Belize Affiliate and its retail customers.

E. Reams and Keyes Violated PCAOB Rules and Standards in Connection with the Audits

16. 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.[7] Among other things, PCAOB standards require an auditor to exercise due professional care, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[8] As described below, Reams and Keyes

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

8 *See* AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

(collectively, the "Engagement Partners") violated these and other PCAOB rules and standards in connection with the Audits.

i. Reams and Keyes Failed to Make Required Inquiries of Freedom

a. Business Purpose Inquiry

17. PCAOB standards require auditors to make certain inquiries of company management concerning related party transactions.[9] Auditors should perform procedures to obtain an understanding of the company's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements.[10] An auditor should inquire of management regarding the business purpose for entering into a transaction with a related party versus an unrelated party.[11]

18. The Engagement Partners understood that the transactions between Freedom and the Belize Affiliate were significant to Freedom's 2019 and 2020 financial statements. The Engagement Partners also understood that the trade orders from the Belize Affiliate to Freedom were for the benefit of the Belize Affiliate's retail customers. The Engagement Partners needed to inquire of management to determine whether there was a valid business purpose for Freedom transacting with the Belize Affiliate as opposed to transacting directly with the retail customers of the Belize Affiliate, who were not related parties, and who were, in fact, the actual parties to the transactions with Freedom.

19. During the Audits, the Engagement Partners failed to inquire about the business purpose of these related party transactions. For example, they failed to inquire why the Belize Affiliate's retail customers could not have gone directly to Freedom with their trade orders, as opposed to placing their orders with the Belize Affiliate then passing those orders to Freedom.

20. Likewise, neither of the Engagement Partners learned why Freedom's CEO set up two separate entities—the Belize Affiliate and Freedom—and then funneled retail trade orders through the non-public, non-audited entity (the Belize Affiliate) on their way to processing by Freedom.

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9 *See* AS 2410.05, *Related Parties*.

10 *Id.* at .03.

11 *Id.* at .05(e).

b. Financial Capability Inquiry

21. For related party transactions that are required to be disclosed in the financial statements or determined to be a significant risk, PCAOB auditing standards state that the auditor should "[e]valuate the financial capability of the related parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any."[12] As described below, the Engagement Partners failed to evaluate the financial capability of the Belize Affiliate, despite the fact the majority of Freedom's margin loans were receivable from the Belize Affiliate.

22. The Engagement Partners understood that the Belize Affiliate was placing trade orders for the benefit of the Belize Affiliate's retail customers. The Engagement Partners further understood that these transactions included trade orders funded by margin loans from Freedom. The retail customers of the Belize Affiliate, however, were not identified in the trade orders or the related Freedom records, and Reams and Keyes had no access to information on the financial capability of the Belize Affiliate's customers. The Belize Affiliate placed trade orders with Freedom for their customers in the Belize Affiliate's own name. And Freedom extended margin loans to the Belize Affiliate in the Belize Affiliate's own name. The Engagement Partners identified these margin loans as presenting a significant risk of material misstatement in both 2019 and 2020.

23. The securities purchased by the Belize Affiliate's retail customers, including securities that were collateralizing margin loans, were identified in Freedom's books and records as being owned by the Belize Affiliate. Nonetheless, the Engagement Partners understood that these securities were owned by the Belize Affiliate's retail customers.

24. In 2019, Freedom reported total margin lending receivables of $47 million and the Belize Affiliate was responsible for $32 million, or 68%, of that total. In 2020, Freedom reported total margin lending receivables of $108 million and the Belize Affiliate was responsible for $87 million, or 81%, of that total.

25. The Engagement Partners failed to obtain and evaluate information about the Belize Affiliate's retail customers, including any agreements between the Belize Affiliate and its retail customers. Freedom management advised the Engagement Partners that the Belize Affiliate's client information was proprietary to the Belize Affiliate and not readily available. The Engagement Partners did not know the terms of the agreements between the Belize Affiliate

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12 *Id.* at .12(d).

and its retail customers, including if such terms were consistent with the terms of the agreements between the Belize Affiliate and Freedom.

26. For example, the Engagement Partners failed to inquire about and to determine whether the commission and margin lending rates that Freedom was charging the Belize Affiliate were consistent with the rates that the Belize Affiliate was charging its retail customers. If Freedom was charging the Belize Affiliate higher commission rates than the Belize Affiliate was charging its own customers, that could have caused the Belize Affiliate, a privately held company, to incur losses for the benefit of Freedom's apparent financial performance as a public company.

27. Similarly, the Engagement Partners failed to inquire about and to determine whether the agreements between the Belize Affiliate and its retail customers required the customers to make securities purchased on margin available as collateral to Freedom in the event that the retail customers defaulted on their margin loans. As a result, the Engagement Partners did not know if Freedom had the right to seize collateral in the event of a default on the margin loans.

28. The Engagement Partners also lacked information about the stand-alone financial viability of the Belize Affiliate. At the time of the Audits, neither Reams nor Keyes had any information about the financial condition of the Belize Affiliate, and they were not able to evaluate the financial capability of the Belize Affiliate to perform on significant uncollected balances for the margin loans that Freedom extended to the Belize Affiliate. Likewise, the Engagement Partners were unable to determine whether the collateral purportedly securing Freedom's margin loans to the Belize Affiliate was, in fact, available to the Belize Affiliate in the event of a default by a retail customer of the Belize Affiliate.[13]

c. Reams and Keyes Failed to Adequately Evaluate Financial Statement Disclosures

29. PCAOB standards require an auditor to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[14] "As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the

13 *Id.* at .12(d); *see also* AS 1105.04.

14 AS 2810.30*, Evaluating Audit Results.*

information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework."[15]

30. PCAOB auditing standards state that "[t]he auditor must evaluate whether related party transactions have been properly accounted for and disclosed in the financial statements."[16] During the Audits, however, the Engagement Partners failed to evaluate financial statement disclosures in compliance with PCAOB auditing standards.

31. The Engagement Partners understood that the Belize Affiliate was responsible for the majority of Freedom's revenue and margin loan balances for both 2019 and 2020. Also, the Engagement Partners understood that Freedom and the Belize Affiliate were related parties.

32. U.S. GAAP required Freedom to disclose certain information concerning its related party transactions.[17] The Engagement Partners, however, failed to evaluate whether Freedom's 2019 and 2020 financial statement disclosures complied with U.S. GAAP and included: (a) a description of the nature of the relationship between Freedom and the Belize Affiliate; (b) a description of the transactions between Freedom and the Belize Affiliate and the related amounts necessary for an understanding of the effects of these transactions on Freedom's financial statements; (c) a description of the terms and manner of the settlement of balances between Freedom and the Belize Affiliate; (d) the identification of the Belize Affiliate by name; and (e) disclosure of the Freedom CEO's control of both Freedom and the Belize Affiliate.[18]

33. The foregoing required disclosures were outlined in GAAP disclosure checklists that were reviewed by Reams in 2019 and Keyes in 2020. Nonetheless, the Engagement Partners failed to evaluate whether the 2019 and 2020 Freedom financial statements adequately disclosed the related party relationship between Freedom and the Belize Affiliate in conformity with U.S. GAAP.[19]

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15 *Id.* at .31.

16 AS 2410.17.

17 FASB ASC 850, *Related Party Disclosures*.

18 *See id.* at 850-10-50-1 (items a-c, above), -3 (item d, above), and -6 (item e, above); *see also* AS 2810.30 and .31.

19 *See* AS 2810.30 and .31.

34. Reams and Keyes also failed to evaluate whether separate presentation on the face of the financial statements of the Belize Affiliate transactions and balances with Freedom was essential for a fair presentation of Freedom's financial statements in conformity with U.S. GAAP.[20]

d. Reams and Keyes Failed to Adequately Evaluate Freedom's Margin Loans to the Belize Affiliate

35. PCAOB standards state that "[t]he auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion."[21] "To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based."[22]

36. In both 2019 and 2020, the Engagement Partners identified margin loans as presenting a significant risk of material misstatement. The Engagement Partners failed to gather sufficient appropriate audit evidence to evaluate margin lending between Freedom and the Belize Affiliate.

37. First, the Engagement Partners failed to gather sufficient appropriate audit evidence to confirm the amounts of Freedom's margin loans to the Belize Affiliate. These margin loans were not identified by either individual transactions or individual Belize Affiliate retail customers. Instead, they took the form of a rolling balance of total margin loans based on all Belize Affiliate transactions, all of which were recorded in the name of the Belize Affiliate. To evaluate the recorded amounts, Reams and Keyes obtained confirmation responses from the Belize Affiliate that purported to confirm, as of Freedom's fiscal year end date, the total margin loan balances receivable from the Belize Affiliate. The audit evidence resulting from this confirmation procedure was not appropriate, as it demonstrated no more than the fact that two related parties, both under the Freedom CEO's control, kept their books in agreement. These confirmation responses did not provide audit evidence that the total recorded amount of margin loans was the result of actual and valid individual margin loan transactions between Freedom and the Belize Affiliate. Because of the unreliability of the audit evidence obtained through the confirmation process, Reams and Keyes were required to, but did not, obtain sufficient appropriate audit evidence to support the recorded amount of Freedom's margin loans to the Belize Affiliate.

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[20] *Id.*

[21] AS 1105.04.

[22] *Id.* at .06.

38. Second, Reams and Keyes failed to gather sufficient appropriate audit evidence to evaluate whether the margins loans to the Belize Affiliate, as recorded, were properly valued. Reams and Keyes had no information on the financial condition of the Belize Affiliate and thus could not evaluate its ability to repay amounts borrowed, absent reliance on collateral purportedly provided by the Belize Affiliate's customers. Reams and Keyes, however, failed to gather sufficient appropriate audit evidence to verify the existence of the securities that were supposedly serving as collateral for the margin loans to the Belize Affiliate. These securities were owned by the Belize Affiliate's retail customers, and Reams and Keyes failed to seek or obtain audit evidence that Freedom had the right to any such collateral in the event of a margin loan default.

39. Third, the Engagement Partners failed to gather sufficient appropriate audit evidence to evaluate the sufficiency of this collateral to support Freedom's loans to the Belize Affiliate. The Engagement Partners performed walk-throughs of certain controls that Freedom claimed it employed to evaluate collateral sufficiency. However, because the Engagement Partners identified margin lending as raising a significant risk of material misstatement, they needed to perform substantive procedures to test the existence and sufficiency of the collateral and could not rely solely on tests of controls, which they failed to do.[23]

40. Further, the controls on which the Engagement Partners relied could not determine if individual margin loans were sufficiently collateralized, as these controls simply compared total Belize Affiliate margin loan balances with total collateral value. The Engagement Partners failed to review the margin loan agreements between the Belize Affiliate and its retail clients, and therefore lacked knowledge as to how collateral applied to individual margin loans, including whether the securities owned by one Belize Affiliate client could serve as collateral for the margin loans of other Belize Affiliate clients.

41. As a result of the failures by the Engagement Partners to adequately evaluate Freedom's margin loans to the Belize Affiliate, they violated PCAOB standards in their audit of margin loans receivable.[24]

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[23] *See* AS 2301.11, *The Auditor's Responses to the Risks of Material Misstatement* ("For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.").

[24] *See* AS 1105.04 and .06; AS 2301.11.

ii. Reams and Keyes Failed to Adequately Evaluate Revenue from the Belize Affiliate

42. The Engagement Partners also failed to gather sufficient appropriate audit evidence to evaluate commission revenue that Freedom recognized on the Belize Affiliate trade orders.

43. First, the Engagement Partners failed to evaluate whether U.S. GAAP criteria governing revenue recognition were met, namely, whether "[t]he parties to the contract have approved the contract."[25] The Engagement Partners understood that the transactions Freedom processed in the name of the Belize Affiliate were, in fact, for the Belize Affiliate's retail customers. But the Engagement Partners failed to perform any procedures, or obtain any audit evidence, to evaluate whether the Belize Affiliate's customers requested these trades and authorized the Belize Affiliate to pay commissions to Freedom for the trades. Instead, the Engagement Partners assumed, without audit evidence, that the commissions paid to Freedom, which ultimately were borne by the Belize Affiliate's retail customers, were known to the Belize Affiliate customers and that they had agreed to pay these commissions.

44. Second, the Belize Affiliate paid certain fixed monthly fees to Freedom. There was a risk of material misstatement that the Belize Affiliate could make payments to Freedom for no purpose other than to create fictitious fee income for Freedom. The Engagement Partners, however, failed to obtain sufficient appropriate audit evidence concerning the nature of these fees and whether they had a legitimate business purpose. Further, the Engagement Partners failed to obtain and evaluate documentation supporting the business purpose, if any, of these fixed monthly fees. The Engagement Partners also did not seek to understand the source of the payment of these fees, including whether these fees were ultimately borne by the Belize Affiliate's retail customers. Finally, in the event that Belize Affiliate retail customer funds were used to pay these fees, the Engagement Partners did not know, and failed to determine, whether the Belize Affiliate's customers had authorized the payment of these fees.[26] Accordingly, the Engagement Partners violated PCAOB standards.[27]

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[25] ASC 606-10-05-4(a), *Revenue from Contracts with Customers*.

[26] *See* AS 1105.04-.05.

[27] *See id.* at .04-.06; AS 2301.11; *see also* AS 2410.12

a. Reams and Keyes Failed to Evaluate Whether the Belize Affiliate was a Variable Interest Entity and Needed to be Consolidated

45. PCAOB auditing standards required the Engagement Partners to evaluate whether Freedom's selection and application of accounting principles were appropriate for its business and consistent with the applicable financial reporting framework and accounting principles used in the industry.[28] Reams and Keyes, however, failed to evaluate, under U.S. GAAP, whether the Belize Affiliate was a variable interest entity ("VIE"), and whether the Belize Affiliate needed to be consolidated with Freedom.[29]

46. Although Reams and Keyes knew that Freedom provided the majority of the margin loans that supported the Belize Affiliate's operations, they failed to obtain any information concerning the financial condition of the Belize Affiliate. This information was necessary to determine if the Belize Affiliate was a VIE. More specifically, the Engagement Partners obtained no information and performed no evaluation of whether the Belize Affiliate was financially viable without the support that it received from Freedom in the form of margin loans.

47. As a result, the Engagement Partners failed to evaluate whether the Belize Affiliate was a VIE and failed to consider whether the Belize Affiliate needed to be consolidated with Freedom in violation of PCAOB standards.[30]

F. Budge Violated PCAOB Rules and Auditing Standards in Connection with his EQR of the Audits

48. An EQR is required for all audits and reviews conducted pursuant to PCAOB standards.[31] The EQR is intended to "serve as a meaningful check on the work performed by the

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[28] *See* AS 2110.12; *see also* AS 2810.30 ("The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.").

[29] A VIE is a legal entity subject to consolidation under U.S. GAAP if one or more specified conditions exists. ASC 810-10-15-14, *Consolidation*. One condition that causes an entity to be a VIE is if the "total equity investment. . . at risk [in the entity] is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders." *Id.* at 810-10-15-14(a).

[30] *See* AS 2110.12; AS 2810.30.

[31] *See* AS 1220.01.

engagement team."[32] 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.[33] Among other things, the EQR partner should evaluate the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team or the EQR partner.[34] The EQR partner may provide concurring approval of issuance of an audit report only if, after performing the EQR with due professional care, he or she is not aware of a significant engagement deficiency.[35]

49. The engagement teams identified margin lending as presenting a significant risk of material misstatement for both 2019 and 2020. However, the EQR partner, Budge, failed to adequately evaluate the engagement teams' assessment of, and audit responses to, that risk.

50. Specifically, Budge failed to review the margin loan audit documentation for either year, nor did Budge know what the engagement team did to evaluate margin loans and related interest income during the Audits. In addition, Budge could not recall: (a) what the engagement teams did to evaluate margin lending to determine that receivables were fully collectible, (b) how the engagement teams tested the existence and valuation of the collateral securing the margin loans, or (c) whether the engagement teams were relying on confirmation responses to evaluate reported margin lending.

51. During the Audits, Budge also failed to evaluate properly the significant judgments made, and the related conclusions reached, by the engagement teams with respect to revenue.[36] Specifically, Budge failed to properly evaluate the engagement teams' assessment of, and audit responses to, significant risks identified by the engagement teams, including fraud risks related to revenue.[37] Budge knew that the engagement teams had identified revenue as a significant risk and a fraud risk. However, he failed to obtain an understanding of what, if any, procedures had been performed to evaluate revenue. Budge also failed to properly review the engagement teams' work performed, and documentation prepared, related to revenue.[38]

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32 PCAOB Rel. No. 2009-004 (July 28, 2009) at 2.

33 *See* AS 1220.09.

34 *See id.* at .10(b).

35 *See id.* at .12.

36 *See id.* at .09.

37 *See id.* at .10(b).

38 *See id.* at .11.

52. As a result of the failures described above, Budge provided his concurring approvals of issuance without performing his reviews with the requisite due professional care.[39]

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)(B) of the Act and PCAOB Rule 5300(a)(2), Scott J. Reams 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;[40]

B. After two years from the date of this Order, Scott J. Reams may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Brandon R. Keyes 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;[41]

D. After two years from the date of this Order, Brandon R. Keyes may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

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39 *See id*. at .12; AS 1015.01.

40 As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Reams. 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."

41 As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra*, at n. 40, will apply with respect to Keyes.

E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), James C. Budge 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;[42]

F. After one year from the date of this Order, James C. Budge may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and

G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4): (i) a civil money penalty in the amount of $35,000 is imposed on Scott J. Reams; (ii) a civil money penalty in the amount of $35,000 is imposed on Brandon R. Keyes; and (iii) a civil money penalty in the amount of $25,000 is imposed on James C. Budge. 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. Each Respondent shall pay his civil money penalty 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 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 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, each Respondent understands that failing to pay his 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. 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 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

[42] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act, discussed *supra*, at n. 40, will apply with respect to Budge.

reduction of any award of compensatory damages, by the amount of any part of Respondents' payment of the civil money penalties pursuant to this Order, in any private action brought against Respondents based on substantially the same facts as set out in the findings in this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 20, 2022