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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of BDO Magyarország Könyvvizsgáló Kft.,

Respondent.

PCAOB Release No. 105-2017-024

By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring BDO Magyarország Könyvvizsgáló Kft., a/k/a BDO Hungary Audit, Ltd. ("Respondent" or the "Firm"), imposing a $20,000 civil money penalty on the Firm, and requiring the Firm to undertake certain remedial measures, including measures to establish policies and procedures directed toward ensuring compliance with auditor independence requirements. The Board is imposing these sanctions on the basis of its findings that, in connection with the audits of two issuers, the Firm violated (1) PCAOB Rule 3520, *Auditor Independence*, by failing to satisfy applicable independence criteria, including as set out in Securities and Exchange Commission ("Commission") rules; and (2) PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

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 Respondent 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 institution of these proceedings, and pursuant to PCAOB Rule 5205, *Settlement of Disciplinary Proceedings Without a Determination After Hearing*, 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,

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Respondent consents to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds that:

A. Respondent

1. BDO Magyarország Könyvvizsgáló Kft., a/k/a BDO Hungary Audit, Ltd., is, and at all relevant times was, a limited liability company organized under Hungarian law, and headquartered in Budapest, Hungary. The Firm is licensed by the Hungarian Chamber of Auditors (license no. MKVK 0049). The Firm is a member of BDO International Limited. At all relevant times, the Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

B. Summary

2. This matter concerns Respondent's violations of PCAOB 3520,[2] which requires a registered public accounting firm to be independent of the firm's issuer audit clients throughout the audit and professional engagement period. Under Rule 3520, a firm's independence requirements include an obligation to satisfy the independence criteria set out in Commission rules and regulations.

3. At the time Respondent commenced field work for the audits of the financial statements of iGlue, Inc. ("iGlue") for the years ending December 31, 2013 and 2014, and Power of the Dream Ventures, Inc. ("PDV") for the year ended December 31, 2014, there were unpaid prior year audit fees that were material in relation to the fee the Firm expected to charge for those audits. Additionally, at the time those audit

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[1] The findings herein are made pursuant to Respondent's Offer and are not binding on any other persons or entities in this or any other proceeding.

[2] All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audits. As of December 31, 2016, the PCAOB reorganized its rules and 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 2016), https://pcaobus.org/Standards/Auditing/Documents/PrintableReferenceTable.pdf.

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engagements were commenced, neither iGlue nor PDV had made any definite commitments or arrangements to pay the overdue audit fees. Respondent's commencement of field work under these circumstances was inconsistent with the independence criteria set out in Commission regulations. Accordingly, in connection with the audits of iGlue's December 31, 2013 and 2014 financial statements, and PDV's December 31, 2014 financial statements, Respondent violated PCAOB Rule 3520.

4. This matter also concerns the failure of Respondent to comply with PCAOB Rule 3526. PCAOB Rule 3526 requires, among other things, that a registered firm describe to the audit committee of the audit client, at least annually and in writing, certain relationships that, as of the date of the communication, may reasonably be thought to bear on independence . The Firm failed to make that required communication with respect to unpaid fees for either the 2013 and 2014 iGlue audits or the 2014 PDV audit.

5. Finally, Respondent failed to comply with PCAOB quality control standards at the time of the audits discussed herein, because it had not established policies and procedures to provide the Firm with reasonable assurance that (a) it would maintain independence in all required circumstances;[3] and (b) the policies and procedures the Firm had established relating to independence were suitably designed and were being effectively applied.[4] Respondent was aware that, at the time it commenced field work for the 2013 and 2014 iGlue audits and for the 2014 PDV audit, there were unpaid prior year audit fees and that neither iGlue nor PDV had made any definite commitments or arrangements to pay the overdue fees. Additionally, Respondent was aware that commencing field work under those circumstances was contrary to the Firm's own system of quality control regarding adherence to PCAOB auditor independence requirements. Throughout those audits, however, Respondent repeatedly failed to evaluate appropriately whether it was independent of iGlue and PDV as required by PCAOB rules and standards, including whether it satisfied the independence criteria set out in the Commission's rules.

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[3] QC §§ 20.09–.10, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*; see also QC §§ 30.02–.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

[4] QC § 20.20; see also QC §§ 30.02–.03.

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C. <u>Respondent Failed to Maintain the Required Independence from iGlue and PDV</u>

6. PCAOB rules require that, in connection with the preparation or issuance of any audit report, a registered public accounting firm and its associated persons comply with all applicable auditing and related professional practice standards, including independence and ethics standards.[5] In particular, PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm's audit client throughout the audit and professional engagement period.[6] A registered public accounting firm's independence obligation with respect to an audit client that is an issuer encompasses not only an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.[7]

7. The Commission has noted that if unpaid fees owed to an accountant for an extended period become material in relation to the fee expected to be charged for the current audit, "there may be a question concerning the accountant's independence . . . because the accountant may appear to have a direct interest in the results of operations of the client."[8] Such an interest would be inconsistent with the Commission's general standard of independence set out in Rule 2-01(b) of Regulation S-X.[9] For that reason, the Commission has noted that, "[g]enerally, prior year audit fees and other unpaid fees should be paid before a current audit engagement is commenced

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[5] <u>See</u> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*; PCAOB Rule 3500T, *Interim Ethics Standards*; and PCAOB Rule 3600T, *Interim Independence Standards*.

[6] PCAOB Rule 3520; AU § 220, *Independence*.

[7] <u>See</u> PCAOB Rule 3520, Note 1.

[8] Financial Reporting Codification ("Codification") 602.02.b.iv.

[9] <u>Cf.</u> Preliminary Note 2 to Rule 2-01 of Regulation S-X, 17 C.F.R. § 210.01 ("Rule 2-01") (in considering general standard, Commission looks to whether, among other things, the relationship creates a mutual interest between the accountant and the audit client).

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in order for the accountant to be deemed independent."[10] The Commission has also noted, however, that "[n]ormally, a question would not be raised in such situation if, at the time the current audit engagement is commenced, a definite commitment is made by the client to pay the prior year fees before the current audit report is issued" (hereinafter, "Payment Agreement").[11]

8. As described below, there were unpaid audit fees due from iGlue and PDV at the time Respondent commenced field work for the 2013 and 2014 iGlue audits and the 2014 PDV audit. In addition, there was no Payment Agreement with respect to those unpaid fees between Respondent and either iGlue or PDV. As a result, Respondent violated PCAOB rules by failing to meet the Board's and the Commission's independence criteria with respect to those two issuer clients.[12]

Respondent Was Not Independent During its Audits of iGlue, Inc.

9. iGlue, formerly Hardwired Interactive, Inc., is a Nevada corporation with principal executive offices in Budapest, Hungary. iGlue operates through its wholly owned subsidiary In 4, Kft., a Hungarian limited liability company. iGlue's public filings disclose that the company focuses on the development and commercialization of an integrated online content manager and search engine built with social media extensions. iGlue's common stock was registered under Section 12(g) of the Exchange Act and quoted on the Pink Sheets of the National Quotation Bureau ("OTCQB") under the symbol "IGLU." At all relevant times, iGlue was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

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[10] Codification 602.02.b.iv.

[11] Id.

[12] In addition, in the circumstances presented here, the absence of a definite commitment, as of the commencement of field work, to pay the outstanding fees before Respondent issued the current year's audit report, impaired Respondent's independence. We also note, however, that the presence of such a definite commitment would not, alone, have been sufficient to avoid an impairment, since the Board's independence criteria also provides that independence is impaired if fees for any professional services provided more than one year before the date of the audit report remain unpaid when the audit report on the client's current year is issued. ET §§ 191.103-104. With respect to the 2013 and 2014 iGlue audits and the 2014 PDV audit, such fees remained outstanding when the report was issued.

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10. Respondent was, at all relevant times, iGlue's external auditor and performed the audit of iGlue's financial statements for years ending December 31, 2012, December 31, 2013, and December 31, 2014. Each of the audit reports Respondent issued in connection with those audits included an explanatory paragraph indicating that there was substantial doubt about iGlue's ability to continue as a going concern.

11. For the year ending December 31, 2012, the contracted audit fee for Respondent's performance of the audit of iGlue's financial statements and quarterly review procedures ("2012 iGlue Audit") was approximately $23,100.[13]

12. On April 15, 2013, Respondent issued an audit report on iGlue's financial statements for the 2012 iGlue Audit. That same day, Respondent's audit report and iGlue's financial statements were included in the Form 10-K iGlue filed with the Commission for year ending December 31, 2012. The total unpaid billed and unbilled audit fees for the 2012 iGlue Audit due to Respondent from iGlue, as of the date Respondent issued its report for that audit, were approximately $10,600.

13. Respondent continued to provide audit and review services for iGlue for fiscal year 2013. The contracted audit fee iGlue agreed to pay Respondent to perform the audit and reviews of iGlue's 2013 financial statements was $4,200.

14. At the time Respondent commenced field work for the audit of iGlue's December 31, 2013 financial statements ("2013 iGlue Audit"), approximately $6,100 in billed audit fees for the 2012 iGlue Audit remained outstanding. Those unpaid fees were material in relation to the fee expected to be charged by Respondent for the 2013 iGlue Audit. In addition, there was no Payment Agreement between Respondent and iGlue.

15. On April 14, 2014, Respondent issued an audit report on iGlue's 2013 financial statements, and on the same day, iGlue included that audit report in its 2013 Form 10-K filed with the Commission.

16. Respondent continued to provide audit and review services for iGlue for fiscal year 2014. The contracted audit fee iGlue agreed to pay Respondent to perform the audit and reviews of iGlue's 2014 financial statements was $4,200.

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[13] The dollar amounts and percentages herein are approximate, calculated in United States Dollars and rounded to the nearest whole number, except as otherwise stated. In addition, all stated billed and unbilled audit fees include a 27% value added tax.

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17. At the time Respondent commenced field work for the audit of iGlue's December 31, 2014 financial statements ("2014 iGlue Audit"), approximately $10,300 in billed and unbilled audit fees for the 2012 and 2013 iGlue Audits remained outstanding. Those unpaid fees were material in relation to the fee expected to be charged by Respondent for the 2014 iGlue Audit. In addition, there was no Payment Agreement between Respondent and iGlue.

18. On March 31, 2015, Respondent issued an audit report on iGlue's 2014 financial statements, and on the same day, iGlue included that audit report in its 2014 Form 10-K filed with the Commission

19. As a result of the conduct described above, Respondent violated PCAOB rules by failing to satisfy applicable independence criteria set out in Commission regulations with respect to the 2013 and 2014 iGlue Audits.[14]

Respondent Was Not Independent During its 2014 PDV Audit

20. PDV is a Delaware corporation with principal executive offices in Budapest, Hungary. PDV's public filings disclose that it is a Hungarian-based holding company focused on technology acquisition and development enabling the delivery of revolutionary concepts and ready to market products to the international marketplace. PDV's common stock was registered under Section 12(g) of the Exchange Act and quoted on the OTC Bulletin Board ("OTCBB") under the symbol "PWRV". At all relevant times, PDV was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

21. Respondent was, at all relevant times, PDV's external auditor and performed the audits of PDV's financial statements for 2013 and 2014 ("PDV Audits"). Both of the audit reports Respondent issued in connection with the PDV Audits included an explanatory paragraph indicating that there was substantial doubt about the ability of PDV to continue as a going concern.

22. For the year ending December 31, 2013 ("2013 PDV Audit"), the contracted audit fee agreed to by PDV and Respondent was approximately $37,000.

23. On April 14, 2014, Respondent issued an audit report on PDV's 2013 financial statements that PDV included in its 2013 Form 10-K filed with the Commission. The total unpaid billed ($18,500) and unbilled ($18,500) audit fees due to Respondent

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[14] See PCAOB Rule 3520; Rule 2-01(b); Codification 602.02.b.iv.

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from PDV for the 2013 PDV Audit, as of the date Respondent issued its audit report for that audit, were approximately $37,000.

24. Respondent continued to provide audit and review services for PDV for fiscal year 2014. The contracted audit fee PDV agreed to pay Respondent to perform the audit and reviews of PDV's 2014 financial statements was $27,000.

25. At the time Respondent commenced field work for the audit of PDV's December 31, 2014 financial statements ("2014 PDV Audit"), PDV had failed to pay to Respondent any of the contracted audit fee (i.e., $37,000) agreed to by PDV and Respondent for the 2013 PDV Audit. Moreover, the unpaid fees were material in relation to the fee Respondent expected to charge for the 2014 PDV Audit. There was also no Payment Agreement between Respondent and PDV.

26. On April 15, 2015, Respondent issued its audit report on PDV's 2014 financial statements, and PDV included that audit report in its 2014 Form 10-K filed with the Commission.

27. As a result of the conduct described above, Respondent violated PCAOB rules by failing to satisfy applicable independence criteria set out in Commission regulations with respect to the 2014 PDV Audit.[15]

D. <u>Respondent Violated PCAOB Rules Related to Certain Required Communications With the Audit Committees of iGlue and PDV Concerning Independence</u>

28. PCAOB rules require auditors to provide to an issuer's audit committee or equivalent certain independence communications.[16] In particular, PCAOB Rule 3526 requires an auditor to make certain communications, in writing, at least annually with respect to each of its issuer audit clients, including a written communication describing to the audit committee of the audit client, as of the date of the communication, relationships that may reasonably be thought to bear on independence.[17] The Firm failed to make that required communication with respect to the unpaid audit fees associated with the 2013 and 2014 iGlue Audits and the 2014 PDV Audit, in violation of PCAOB Rule 3526.

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[15] <u>See</u> PCAOB Rule 3520; Rule 2-01(b); Codification 602.02.b.iv.

[16] PCAOB Rule 3526.

[17] PCAOB Rule 3526(b)(1).

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E. <u>Respondent Violated PCAOB Rules and Standards Related to Quality Control</u>

29. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards,[18] which provide that a registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."[19] PCAOB quality control standards further state that policies and procedures should be established to provide the firm with reasonable assurance that "personnel maintain independence . . . in all required circumstances" and "that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."[20] Additionally, PCAOB quality control standards provide that policies and procedures for monitoring "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control . . . are suitably designed and are being effectively applied," and that "its system of quality control is effective."[21]

30. Respondent was aware that, at the time it commenced field work for the 2013 and 2014 iGlue audits and for the 2014 PDV audit, there were unpaid prior year audit fees and that there was no Payment Agreement with respect to those unpaid fees between Respondent and either iGlue or PDV. Additionally, Respondent was aware that commencing field work under those circumstances was contrary to the Firm's own system of quality control regarding adherence to PCAOB auditor independence requirements. However, Respondent failed to suitably design, effectively apply, or appropriately monitor quality control policies and procedures to provide reasonable assurance concerning the Firm's independence. Those failures resulted in, or contributed to, Respondent repeatedly violating PCAOB rules and standards related to independence, including by failing to satisfy applicable Commission independence criteria as described above.

31. As a result, Respondent violated PCAOB quality control standards from 2013 to 2015.

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18 PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

19 QC § 20.01.

20 QC §§ 20.09-.10, and 20.17.

21 QC § 20.20; <u>see</u> <u>also</u> QC § 30.03.

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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), the Firm is hereby censured;

B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $20,000 is imposed upon the Firm. 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. The Firm 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 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 Firm 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.

C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm is required:

1. within ninety (90) days from the date of this Order, to establish policies and procedures, or revise and/or supplement existing policies and procedures, for the purpose of providing the Firm with reasonable assurance of compliance with auditor independence requirements applicable to audits and reviews conducted pursuant to PCAOB standards;

2. within ninety (90) days from the date of this Order, to establish policies to ensure training of Firm personnel concerning auditor independence requirements applicable to audits and reviews conducted pursuant to PCAOB standards; and

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3. within one hundred twenty (120) days from the date of this Order, to certify in writing to the Director of the Division of Enforcement and Investigations, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, the Firm's compliance with paragraphs C(1) through C(2) above. The certification shall identify the undertakings, 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.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

April 12, 2017