

ORDER

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 finds² that:

A. Respondent

1. Edward Andrew Hamilton, CPA, 55, of Denver, Colorado is a certified public accountant licensed by the Colorado Board of Accountancy (License No. 0012112). He served as the engagement quality reviewer for the issuer audit identified below. Hamilton 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. Summary

2. This matter concerns Respondent's violations of AS 7 while serving as the engagement quality reviewer for the audit that Cutler & Co., LLC ("C&C")³ performed for Sungame Corp.'s ("Sungame") financial statements for the year ended December 31, 2013 (the "Audit").

3. During his engagement quality review ("EQR"), Respondent failed to properly evaluate the significant judgments made, and the related conclusions reached, by the engagement team. As a result, Respondent provided his concurring approval of

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

² The Board finds that Respondent's 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: (A) intentional or knowing conduct, including reckless conduct, that results in 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.

³ See *Cutler & Co., LLC, and David J. C. Cutler, CPA*, PCAOB Rel. No. 105-2017-003 (Feb. 23, 2017).



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issuance without performing the EQR with the due professional care.⁴ In addition, Respondent failed to appropriately document his EQR, as required by AS 7.⁵

C. Requirements of PCAOB Auditing Standard No. 7

4. 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 applicable auditing and related professional practice standards.⁶

5. AS 7 provides that an EQR and concurring approval of issuance are required for all audits conducted pursuant to PCAOB standards.⁷

6. The engagement quality reviewer may provide concurring approval of issuance for an audit report only if, after performing with due professional care the review required by AS 7, he or she is not aware of a significant engagement deficiency.⁸

7. In an audit engagement, an engagement quality reviewer should evaluate 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.⁹ The engagement quality reviewer should, among other things, evaluate the engagement team's assessment of, and audit responses to, significant risks, including fraud risks, identified by the engagement team or other significant risks

⁴ See AS 7 ¶ 12. All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the Audit.

⁵ See *id.* ¶ 19.

⁶ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*.

⁷ See AS 7 ¶ 1.

⁸ See *id.* ¶ 12 ("A *significant engagement deficiency* in an audit exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client.").

⁹ See *id.* ¶ 9.

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identified by the engagement quality reviewer through performance of the procedures required by AS 7.¹⁰

8. In an audit engagement, the engagement quality reviewer should review the engagement completion document and confirm with the engagement partner that there are no significant unresolved matters.¹¹ The engagement quality reviewer should also evaluate whether the engagement documentation that he or she reviewed indicates that the engagement team responded appropriately to significant risks and supports the conclusions reached by the engagement team with respect to the matters reviewed.¹² To the extent necessary to satisfy the requirements of an EQR under AS 7, the engagement quality reviewer should (1) hold discussions with the engagement partner and other members of the engagement team, and (2) review documentation.¹³

9. Finally, documentation of an EQR should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, including, but not limited to, the documents reviewed by the engagement quality reviewer.¹⁴

D. Respondent Violated PCAOB Rules and Auditing Standards In Connection with the Audit

10. Respondent served as the engagement quality reviewer for the Audit. As detailed below, he violated AS 7 by providing his concurring approval of issuance without performing an EQR for the 2013 Audit with due professional care.

11. During the Audit, C&C provided Respondent with substantially all of C&C's work papers for the Audit, which identified several significant risks and audit issues. Among others, the work papers identified a fraud risk involving improper revenue recognition.¹⁵ The work papers also identified fraud risks related to "a clear lack of

¹⁰ See id. ¶ 10(b).

¹¹ See id. ¶ 10(e).

¹² See id. ¶ 11.

¹³ See id. ¶ 9.

¹⁴ See id. ¶ 19.

¹⁵ See AS 12 ¶ 71 (fraud risks are significant risks); see also AS 12 ¶ 68 (the auditor should presume a fraud risk involving improper revenue recognition).

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segregation of duties and a high risk of management override of controls." The work papers additionally identified that Sungame's unearned revenue was a significant account, and that the transactions underlying Sungame's unearned revenue were "unusual." The work papers further identified a specific risk of misappropriation of assets by management, which principally concerned the cash Sungame generated through deposits giving rise to Sungame's unearned revenue.

12. Respondent violated AS 7 because he failed to evaluate the significant judgments made, and the related conclusions reached, by the engagement team. Respondent failed to adequately evaluate the engagement team's responses to significant risks. Although Respondent reviewed certain audit engagement documentation related to revenue and unearned revenue, he failed to properly evaluate whether the engagement documentation that he reviewed supported the conclusions reached by the engagement team. The work papers failed to demonstrate that the engagement team took steps to specifically address the risks of fraud connected with revenue and unearned revenue. Further, Respondent failed to hold any discussions with the engagement team to evaluate the judgments and conclusions reached with respect to Sungame's revenue and unearned revenue.

13. Respondent also violated AS 7 by failing to appropriately review the engagement completion document and confirm with the engagement partner that there were no significant unresolved matters.¹⁶ The engagement completion document provided to Respondent did not meet PCAOB standards because it did not provide all information necessary to understand the significant findings and issues or cross-references to other available supporting audit documentation that provided such understanding.¹⁷ Additionally, although the engagement partner did not document his review of the work papers,¹⁸ Respondent failed to confirm with the engagement partner that there were no significant unresolved matters in the audit.¹⁹

¹⁶ See AS 7 ¶¶ 10(e), 11.

¹⁷ See Auditing Standard No. 3, *Audit Documentation*, ¶¶ 3, 13.

¹⁸ See fn. 3, *supra*.

¹⁹ See AS 7 ¶ 10(e).

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14. For these reasons, Respondent failed to perform the engagement quality review for the Audit with due professional care, and violated AS 7 by providing his concurring approval of issuance of the engagement audit report.²⁰

E. Respondent Violated PCAOB Rules and Auditing Standards by Failing to Adequately Document His Engagement Quality Review

15. PCAOB auditing standards require an engagement quality reviewer to document an engagement quality review.²¹ "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 documents reviewed by the engagement quality reviewer.²² Respondent failed to comply with this requirement for the Audit.

16. The only documentation of Respondent's engagement quality review for the Audit was a short e-mail to the engagement team. Respondent did not document the procedures he performed or the documents that he reviewed. As such, Respondent's documentation failed to comply with the requirements of AS 7.

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), Edward Andrew Hamilton, CPA, is hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Edward Andrew Hamilton, CPA, is suspended from being an associated person of a registered public accounting firm, as that term is defined in

²⁰ See id. ¶ 12.

²¹ See id. ¶¶ 19-21.

²² See id. ¶ 19.

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Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i), for a period of one year from the date of this Order.²³

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

February 23, 2017

²³ As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Hamilton. 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."