

ORDER

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement ("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 facts contained in paragraphs 17 through 21 and the Board's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").¹

III.

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

A. Respondents

1. Schild & Co., Inc. is a professional corporation organized under the laws of the state of California, and headquartered in Fountain Valley, California. The Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice public accountancy in California (Lic. No. COR 7241) and in the state of Washington (Lic. No. 6175). At all relevant times, the Firm was the external auditor for the issuer identified below.

2. David Schild, CPA, 53, of Rancho Santa Margarita, California, is the sole partner of the Firm, and a certified public accountant ("CPA") licensed by the state of California (Lic. No. CPA 78824). Schild served as the engagement partner on the audit identified below. At all relevant times, Schild was an associated person of a registered

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

² The Board finds that each 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 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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public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

3. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the Firm's audit of the December 31, 2014 financial statements of Perko Worldwide Corp. ("Perko").³ As detailed below, Schild and the Firm failed to obtain sufficient appropriate audit evidence and exercise due care and professional skepticism in connection with the Perko audit.⁴

4. This matter also concerns Respondents' violations of PCAOB rules and standards and federal securities laws concerning auditor independence in connection with the Perko audit. Respondents prepared Perko's 2014 financial statements, which they then audited.⁵

5. The Firm also failed to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS 7"), in connection with the Perko audit by failing to obtain an engagement quality review before issuing its audit opinion even though an engagement quality review was required to be performed. Additionally, Schild violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*, by contributing to the Firm's violation of AS 7.

³ All references to PCAOB rules and standards in this Order are to the versions of those rules and standards in effect for the audit described herein. 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 PreReorganized Numbering* (January 2016) <https://pcaobus.org/Standards/Auditing/Documents/PrintableReferenceTable.pdf>.

⁴ See AU § 150.02, Generally Accepted Auditing Standards; AU § 230, Due Professional Care in the Performance of Work; Auditing Standard No. 15, Audit Evidence ("AS 15").

⁵ See PCAOB Rule 3520, *Auditor Independence*; Section 10A(g)(1) of the Exchange Act; AU § 220, *Independence*.

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C. Respondents Violated PCAOB Rules and Standards in Connection with the FYE December 31, 2014 Perko Audit

6. 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 all applicable auditing and related professional practice standards.⁶ Among other things, PCAOB standards require that an auditor exercise due professional care, including professional skepticism, and obtain sufficient appropriate audit evidence to afford a reasonable basis for an opinion regarding the financial statements.⁷ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.⁸

7. The auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence.⁹ PCAOB standards further require the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.¹⁰ If audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, PCAOB standards require the auditor to perform the audit procedures necessary to resolve the matter and determine the effect, if any, on other aspects of the audit.¹¹

8. As detailed below, Respondents failed to comply with PCAOB rules and standards in connection with the Perko audit.

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

⁷ See AU § 150.02; AU § 230; AS 15.

⁸ See AU § 508.07, *Reports on Audited Financial Statements*.

⁹ See Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13"), ¶ 7.

¹⁰ See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14"), ¶ 30.

¹¹ See AS 15, ¶ 29.

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2014 Audit of Perko

9. Perko is a Delaware corporation headquartered in Fort Lauderdale, Florida. Perko's public filings disclose that it is a development stage company, formed to develop and build a patented revolutionary type of high-speed roll on/roll off container cargo transportation vessel having secondary and tertiary sources of income within each ship of parcels and passengers. Perko filed an amended registration statement on a Form S-1/A with the U.S. Securities and Exchange Commission ("Commission") on June 16, 2015. The amended registration statement included an audit report containing an unqualified audit opinion issued by the Firm, dated June 8, 2015, on the financial statements of Perko as of and for the year ended December 31, 2014. At all relevant times, Perko was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

10. Schild was the engagement partner for the Firm's audit of the December 31, 2014 financial statements of Perko with primary responsibility for the audit. On June 8, 2015, Schild authorized the issuance of an audit report expressing an unqualified opinion on Perko's financial statements. The audit report was included in the Form S-1/A that Perko filed with the Commission on June 16, 2015.

11. Perko's December 31, 2014 financial statements disclosed a patent, recorded as an intangible asset, that accounted for nearly all of the company's assets. Perko reported no revenues for fiscal year 2014, and sustained an operating loss of about \$100,000. As part of its audit, the Firm obtained documentation that the patent was issued to David Perko, Perko's CEO, on March 21, 2006. Schild also spoke with David Perko regarding the patent. The Firm's work papers indicate that David Perko said he contributed the patent to Perko. Respondents failed to corroborate this information during the audit. Perko recorded the value of the patent on its books in the amount of \$402,000, less depreciation of \$175,875, as of December 31, 2014.

12. Other than obtaining management representations, Respondents failed to test Perko's rights to the patent, or whether Perko properly valued the asset. Respondents failed to obtain sufficient appropriate audit evidence regarding the nature of the arrangement between Perko and David Perko with respect to ownership of the patent. As a result, Respondents failed to exercise due professional care, including professional skepticism, during the audit, and failed to obtain sufficient appropriate evidence to provide a reasonable basis for the opinion issued in connection with Perko's 2014 financial statements.¹²

¹² See AU § 230; AS 13, ¶ 7; AS 15, ¶¶ 4-6.

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D. Respondents Failed to Comply with Auditor Independence Requirements

13. 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.¹³ A registered public accounting firm or associated person'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.¹⁴

14. Section 10A(g) of the Exchange Act provides that it shall be unlawful for a registered public accounting firm (and any associated person of that firm, to the extent determined appropriate by the Commission) that performs an audit for an issuer "to provide to that issuer, contemporaneously with the audit, any non-audit service, including . . . [b]ookkeeping or other services related to the accounting records or financial statements of the audit client."

15. Exchange Act Rule 10A-2 states that it shall be unlawful for an auditor not to be independent with respect to, among other requirements, the prohibited non-audit services provisions of Commission Regulation S-X. Rule 2-01 of Regulation S-X provides that an accountant is not independent if, at any point during the audit and professional engagement period, the accountant provides certain non-audit services for audit clients, including bookkeeping and financial statement preparation services.¹⁵

16. With respect to the 2014 Perko audit, Respondents prepared the financial statements that formed the bases of Perko's financial statements that were included in Perko's Form S-1/A filed with the Commission. As a result, Respondents failed to comply with PCAOB rules and standards, the Exchange Act, and Exchange Act rules in connection with the audit.¹⁶

¹³ See PCAOB Rule 3520; AU § 220.

¹⁴ See PCAOB Rule 3520, Note 1.

¹⁵ See 17 C.F.R. §§ 210.2-01(b), (c)(4)(i).

¹⁶ See Section 10A(g) of the Exchange Act; Exchange Act Rule 10A-2; PCAOB Rule 3520; AU § 220.

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E. The Firm Violated Auditing Standard No. 7, *Engagement Quality Review*

17. For audits of issuer financial statements for years beginning on or after December 15, 2009, AS 7 requires that an engagement quality review be performed on audits and interim reviews conducted pursuant to PCAOB standards.¹⁷ AS 7 also provides that, in an audit, a firm may grant permission to a client to use the engagement report only after an engagement quality reviewer provides concurring approval of issuance of the report.¹⁸

18. The Firm improperly permitted Perko to use its audit report for Perko's year-end 2014 financial statements, dated June 8, 2015, without first obtaining an engagement quality review and concurring approval of issuance. As a result, the Firm violated AS 7.¹⁹

F. Schild Contributed to the Firm's Violation

19. PCAOB Rule 3502 prohibits an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that 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.

20. Schild, the sole partner of the Firm, was principally responsible for the Perko audit conducted by the Firm. Accordingly, Schild had primary responsibility for the audit, including ensuring that the Firm complied with PCAOB rules and standards.

21. Schild knew, or was reckless in not knowing, that he was directly and substantially contributing to the Firm's violation of AS 7 on the Perko audit set forth above. As a result, he violated PCAOB Rule 3502.

¹⁷ See AS 7, ¶ 1.

¹⁸ Id., ¶ 13.

¹⁹ Id., ¶ 1.

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22. During the Board's investigation, Respondents provided substantial assistance to the Division of Enforcement and Investigations ("Division") by voluntarily providing information regarding the independence and AS 7 violations in a timely manner.²⁰ Respondents disclosed to the Division that, during the Perko audit, Respondents prepared Perko's December 31, 2014 financial statements. Respondents also disclosed to the Division that the Firm did not obtain concurring approval of issuance of the June 8, 2015 Perko audit report before it granted Perko permission to use the audit report. The Board took this extraordinary cooperation into account in ordering the sanctions under Section IV of this Order.

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), Schild & Co., Inc. and David Schild, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one (1) year from the date of the issuance of this Order, David Schild, CPA's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: David Schild, CPA shall not (1) serve as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10, *Supervision of the Audit Engagement* (reorganized as AS 1201); (2) serve as an "engagement quality reviewer," as that term is used in Auditing Standard No. 7, *Engagement Quality Review*, (reorganized as AS 1220); (3) serve in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); or (4) exercise authority either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; and

²⁰ See Policy Statement Regarding Credit for Extraordinary Cooperation in Connection with Board Investigations, PCAOB Release No. 2013-003 (Apr. 24, 2013).

ORDER

- C. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Schild & Co., Inc. is suspended for a period of one (1) year.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

April 12, 2017