

<p>ORDER MAKING FINDINGS AND IMPOSING SANCTIONS</p> <p><i>In the Matter of Seale and Beers CPAs, LLC, and Charlie B. Roy, CPA,</i></p> <p style="text-align: center;">Respondents.</p>	<p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p> <p>)</p>	<p>PCAOB Release No. 105-2017-038</p> <p>September 14, 2017</p>
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By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is (1) censuring Seale and Beers CPAs, LLC (the "Firm"); (2) revoking the Firm's registration;¹ (3) imposing upon the Firm a civil money penalty in the amount of \$20,000; (4) censuring Charlie B. Roy, CPA ("Roy"); (5) suspending Roy from being an associated person of a registered public accounting firm for a period of one year from the date of this Order; (6) limiting Roy's activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for an additional period of one year following the expiration of his suspension; and (7) imposing upon Roy a civil money penalty in the amount of \$10,000. The Board is imposing these sanctions on the basis of its findings that: (a) Roy and the Firm (collectively "Respondents") violated PCAOB rules and auditing standards in connection with the Firm's audit of Capstone Financial Group, Inc.'s ("Capstone") financial statements for the fiscal year ("FY") ended December 31, 2013 ("FY 2013 Audit"); (b) the Firm violated Section 10A of the Securities Exchange Act of 1934 ("Exchange Act"), and Roy directly and substantially contributed to the Firm's violation of the Exchange Act, in connection with the FY 2013 Audit; (c) Respondents violated PCAOB rules and auditing standards in connection with the Firm's review of Capstone's financial statements for the quarter ended March 31, 2014 ("Q1 2014 Review"); and (d) the Firm violated PCAOB quality control standards and Roy directly and substantially contributed to the Firm's violation of PCAOB quality control standards.

I.

On December 13, 2016, the Board instituted disciplinary proceedings pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against the Respondents. These

¹ The Firm may reapply for registration after one (1) year from the date of this Order.

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proceedings were not public pursuant to Section 105(c)(2) of the Act and PCAOB Rule 5203. The Board determined, under Section 105(c)(2) of the Act and PCAOB Rule 5203, that good cause was shown to make the hearing in this proceeding public, and the Division of Enforcement and Investigations consented to making the hearing public. As permitted by Section 105(c)(2) of the Act and PCAOB Rule 5203, Respondents did not consent to make the hearing in this proceeding public.

II.

In response to these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of this proceeding 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 to the Board's jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Making Findings and Imposing Sanctions ("Order") as set forth below.²

III.

On the basis of Respondents' Offers, the Board finds that:³

A. Respondents

1. Seale and Beers, CPAs, LLC, is a limited liability company organized under the laws of the State of Nevada and headquartered in Las Vegas, Nevada. It is licensed by the Nevada State Board of Accountancy (License # LLC-0207) and registered with the Board pursuant to Section 102 of the Act and PCAOB rules. The Firm was retained by Capstone in November 2013, and acted as Capstone's external auditor for the review of Capstone's financial statements for the quarter ended

² The findings herein are made pursuant to Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

³ The Board finds that the conduct of Respondents 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.

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September 30, 2013, the FY 2013 Audit, and the Q1 2014 Review. The Firm resigned as Capstone's auditor on July 31, 2014, prior to performing a review of Capstone's financial statements for the quarter ended June 30, 2014.

2. Charlie B. Roy, CPA, 36, of Las Vegas, Nevada, is a certified public accountant licensed by the Nevada State Board of Accountancy (License # CPA-5287). At all relevant times, he was the managing partner of the Firm and served as the engagement partner on the Firm's audit and reviews of Capstone's financial statements. Public records disclose that, since the institution of these proceedings, Roy has continued to serve as an engagement partner for audits of the Firm's issuer clients, as well as for issuer clients of a second registered public accounting firm where he is the managing partner. Roy is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined by Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Other Relevant Individual

3. Bojan Stokic, CPA ("Stokic"), 39, of Las Vegas, Nevada, is a certified public accountant licensed by the Nevada State Board of Accountancy (License # CPA-5331). At all relevant times, Stokic was an audit partner with the Firm, and 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). Stokic served as the engagement quality reviewer on the Firm's audit and reviews of Capstone's financial statements.⁴

C. Summary

4. This matter concerns Respondents' repeated and numerous failures to comply with PCAOB rules and standards in connection with the FY 2013 Audit and Q1 2014 Review.⁵ The Firm was retained as Capstone's external auditor, and Roy served as the engagement partner, for these engagements.

⁴ See *Bojan Stokic*, PCAOB Rel. No. 105-2016-048 (December 13, 2016) (censuring Stokic and suspending him from being an associated person of a registered public accounting firm for a period of one year in connection with his work on the Capstone engagements).

⁵ All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audit or review. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing*

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5. During the FY 2013 Audit, Respondents failed to properly plan the audit, including failing to assess the risks of material misstatement and to identify any significant risk at the financial statement and assertion level. Respondents also failed to obtain, or ensure that the engagement team obtained, sufficient appropriate audit evidence for significant items reported in the financial statements, including related party transactions and expenses. Further, Roy failed to exercise due professional care and professional skepticism in conducting and supervising the FY 2013 Audit, and caused the Firm to violate applicable quality control standards with respect to the FY 2013 Audit, as well as other issuer audits.

6. During the Q1 2014 Review, Roy was aware of significant matters impacting a line of credit receivable constituting over 92 percent of Capstone's total reported assets, but Respondents failed to perform sufficient procedures in response to that information.

D. Applicable PCAOB Rules, Auditing Standards, Quality Control Standards, And Statutory Provisions

7. 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.⁶ 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.⁷ Among other things, those standards require that an auditor 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

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 2017), <https://pcaobus.org/Standards/Auditing/Documents/PrintableReferenceTable.pdf>.

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

⁷ See AU § 508.07, *Reports on Audited Financial Statements*.

⁸ See AU § 150.02, *Generally Accepted Auditing Standards*; AU §§ 230.01, .07, *Due Professional Care in the Performance of Work*; Auditing Standard No. 15, *Audit Evidence* ("AS 15").

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8. PCAOB standards state that, in planning an audit, an auditor should, among other things, establish an overall audit strategy for the engagement and develop an audit plan.⁹ The auditor should also identify and assess the risks of material misstatement at the financial statement level and the assertion level, and design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.¹⁰ Relevant factors in determining whether a risk is a significant risk include whether the risk involves significant transactions with related parties.¹¹ The assessment of risk should continue throughout the audit and, when the auditor obtains audit evidence that contradicts audit evidence on which the original risk assessment was made, "the auditor should revise the risk assessment and modify planned audit procedures or perform additional procedures in response to the revised risk assessments."¹²

9. In accordance with PCAOB standards, after identifying related party transactions, an auditor should undertake procedures to "obtain satisfaction concerning the purpose, nature, and extent of these transactions and their effect on the financial statements."¹³ These procedures should extend beyond inquiry of management, and, among other things, involve obtaining an understanding of the business purpose of the related party transaction.¹⁴ An auditor cannot complete the audit until he or she "understands the business sense of material transactions."¹⁵

10. PCAOB standards state that the auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.¹⁶ PCAOB standards further require that an auditor gain an understanding of the business

⁹ See Auditing Standard No. 9, *Audit Planning* ("AS 9"), ¶¶ 4-5.

¹⁰ See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* ("AS 12"), ¶ 59; Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13"), ¶¶ 3, 8; AS 15 ¶¶ 4-6.

¹¹ See AS 12 ¶ 71.

¹² Id. at ¶ 74.

¹³ AU § 334.09, *Related Parties*.

¹⁴ See id.

¹⁵ Id. at § 334.09, fn 6.

¹⁶ See AU § 110.02, *Responsibilities and Functions of the Independent Auditor*.

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rationale for any significant unusual transactions¹⁷ and, when an auditor becomes aware of information concerning a possible illegal act, to perform additional procedures to obtain an understanding of the nature of the act, the circumstances in which it occurred, and sufficient other information to evaluate the effect on the financial statements.¹⁸

11. PCAOB standards also require that an auditor, when performing audit sampling, ensure that "all items in the population...have an opportunity to be selected."¹⁹

12. PCAOB standards further require that an auditor evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.²⁰ The "auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements."²¹ PCAOB standards require that if audit evidence obtained from one source is inconsistent with that obtained from another, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.²² PCAOB standards also require that, if an auditor has not obtained sufficient appropriate audit evidence about a relevant assertion, the auditor should perform procedures to obtain further audit evidence to address the matter.²³

¹⁷ See AU § 316.66, *Consideration of Fraud in a Financial Statement Audit*.

¹⁸ See AU §§ 317.07, .10, *Illegal Acts by Clients*.

¹⁹ AU § 350.24, *Audit Sampling*.

²⁰ See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14"), ¶ 2.

²¹ Id. at ¶ 3.

²² See AS No. 15 ¶ 29; see also AU § 333.04, *Management Representations* ("If a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made. Based on the circumstances, the auditor should consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified.").

²³ See AS No. 14 ¶ 35.

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13. PCAOB standards require that an audit engagement be supervised.²⁴ The engagement partner is responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards.²⁵ Supervising an audit engagement includes reviewing the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work support the conclusions reached.²⁶

14. In performing a review of interim financial information, if an accountant becomes aware of information that leads him or her to believe that the interim financial information may not be in conformity with generally accepted accounting principles in all material respects, the accountant should make additional inquiries or perform other procedures to provide a basis for communicating whether he or she is aware of any material modifications that should be made to the interim financial information.²⁷

15. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.²⁸ PCAOB quality control standards require, among other things, that a firm have procedures to provide it with reasonable assurance that: (1) the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality;²⁹ and, (2) the policies and procedures established by the firm for the elements of quality control were suitably designed and were being effectively applied.³⁰

16. PCAOB rules also prohibit 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

²⁴ See Auditing Standard No. 10, *Supervision of the Audit Engagement* ("AS 10").

²⁵ See id. at ¶ 3.

²⁶ See id. at ¶ 5.

²⁷ See AU § 722.22, *Interim Financial Information*.

²⁸ See PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

²⁹ See Quality Control Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC 20"), §§ 20.17-.19.

³⁰ See id. at § 20.20.

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violation of Board standards or the provisions of the securities laws relating to the preparation and issuance of audit reports by that firm.³¹

17. Section 10A(a) of the Exchange Act requires that each audit of the financial statements of an issuer by a registered public accounting firm include "procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts."³²

E. Background

18. Capstone was incorporated in Nevada on July 10, 2012, under the name Creative App Solutions, Inc., as a development stage company engaged in the design and sale of mobile applications. On August 26, 2013, the name of the company was changed from Creative App Solutions, Inc. to Capstone Financial Group, Inc. and a new chief executive officer ("CEO") was appointed. Capstone underwent a change of control on September 6, 2013, when nearly 80 percent of the then issued and outstanding common stock was acquired by the newly-appointed CEO.

19. Capstone entered into a revolving line of credit payable with Capstone Affluent Strategies, Inc. ("Affluent"), an entity owned and controlled by the individual who became Capstone's new CEO. According to documents contained in the Firm's FY 2013 Audit work papers, this contract was executed on August 8, 2013. The work papers for the FY 2013 Audit also contain documents indicating that Capstone entered into a revolving line of credit receivable with Affluent on September 13, 2013. Both lines of credit initially had similar terms, including \$500,000 in available credit, an interest rate of two percent per annum, and the principal and interest due two years from the date of execution. On October 7, 2013, Capstone and Affluent amended the line of credit receivable to increase, from \$500,000 to \$2,000,000, the amount of credit available to Affluent and to extend the maturity to two years from the date of the amendment.

20. On December 13, 2013, Capstone filed a Form 8-K announcing that it had entered into an Acquisition Agreement and Plan of Merger ("Merger Agreement") by and among itself, a wholly owned subsidiary of Capstone, and Affluent. As a condition of the merger, Affluent was required to provide Capstone with audited financial

³¹ See PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

³² 15 U.S.C. § 78j-1(a)(1).

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statements for the fiscal years ended December 31, 2012 and 2013 within 74 days of the merger closing. The merger was set to close on January 15, 2014.

21. On April 15, 2014, Capstone filed its FY 2013 Form 10-K with the U.S. Securities and Exchange Commission ("Commission"). On November 13, 2014, however, Capstone filed a Form 8-K announcing non-reliance on its financial statements for FY 2013 and the first two quarters of 2014.

22. Ultimately, Capstone filed a Form 10-K/A on February 18, 2015, which restated its FY 2013 financial statements to reflect an additional \$581,826 in operating expenses, a 188% increase from what was originally reported.³³ Almost all of the increase in operating expenses was reflected in the restated financial statements as owed to Affluent under the revolving line of credit payable.

23. Capstone's FY 2013 Form 10-K/A also disclosed that Affluent had been dissolved in April 2014, and that, in a series of transactions that transpired in October 2014, the cross lines of credit between Capstone and Affluent were cancelled. Capstone's FY 2014 Form 10-K, filed on April 30, 2015, disclosed that, in connection with these transactions, Capstone recorded a loss of \$1,089,617 from the forgiveness of debt related to the lines of credit.

F. Respondents Violated Federal Securities Laws and PCAOB Rules and Standards During the FY 2013 Audit

24. The Firm issued an audit report, dated April 15, 2014, that was included in Capstone's FY 2013 Form 10-K filed with the Commission on the same day. The report stated that the audit of Capstone's FY 2013 financial statements had been conducted in accordance with PCAOB standards, and expressed an unqualified opinion concerning those financial statements. Roy served as the engagement partner and authorized the issuance of the audit report. The engagement team consisted of Roy and an audit senior, with Stokic serving as the engagement quality reviewer.

Risk Assessment

25. As part of a 2013 inspection of the Firm by the PCAOB Division of Registration and Inspections, PCAOB inspectors found that Respondents utilized an internally-developed risk assessment form within its planning memorandum that did not provide for the identification and assessment of the risks of material misstatement at the

³³ The Firm resigned on July 31, 2014, and was not involved in auditing Capstone's restatement.

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financial statement level and the assertion level. This deficiency was identified in a PCAOB inspection comment form issued to the Firm on July 25, 2013, which noted that the Firm had failed to perform an appropriate risk assessment in all five issuer audits inspected. Roy signed and acknowledged the PCAOB inspection comment form on behalf of the Firm on August 12, 2013.

26. Despite being aware that utilizing the Firm's internally-developed risk assessment form resulted in an assessment that did not comply with PCAOB standards, Roy and the Firm continued to use this risk assessment form and failed to otherwise assess and document risks of material misstatement at the financial statement level and the assertion level for the FY 2013 Audit.

27. Instead, the engagement team's assessment of risk was limited to assessing inherent risk, control risk, detection risk, and audit risk, and the risks of material misstatement were not properly assessed. In addition, the risk assessment for the FY 2013 Audit aggregated financial statement items, such as all assets or all liabilities. As a consequence, Respondents failed to identify significant accounts and disclosures and their relevant assertions, and failed to properly evaluate, and design and perform audit procedures that addressed, the risks of material misstatement for such items.³⁴ Roy, as the engagement partner, reviewed and signed off on the planning memorandum containing his engagement team's risk assessment.

28. Because Respondents failed to properly assess the risks of material misstatement and failed to identify significant risks at the financial statement level and the assertion level, Respondents also failed to properly establish an overall strategy for the engagement and develop an audit plan that included planned risk assessment procedures and planned responses to the risks of material misstatement. In addition, Respondents failed to perform sufficient audit procedures that addressed the risks of material misstatement.³⁵

Related Party Transactions

29. During the third quarter of 2013, Capstone entered into both a revolving line of credit payable and a revolving line of credit receivable with Affluent. In its FY 2013 financial statements, Capstone reported that the revolving line of credit receivable from Affluent was \$1,472,136, which accounted for 92.6 percent of Capstone's total reported assets as of December 31, 2013. Capstone reported that the revolving line of

³⁴ See AS 12 ¶ 59; AS 13 ¶ 8.

³⁵ See AS 9 ¶¶ 4-5; AS 12 ¶ 59; AS 13 ¶¶ 3, 8; AS 15 ¶¶ 4-6.

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credit payable to Affluent was \$320,240 as of December 31, 2013, which accounted for 96.9 percent of Capstone's total reported liabilities.

30. As the engagement partner, Roy was aware of the related party transactions between Capstone and Affluent, their terms, and their significance to Capstone's financial statements. In accordance with PCAOB standards, after identifying related party transactions, an auditor should undertake procedures to "obtain satisfaction concerning the purpose, nature, and extent of these transactions and their effect on the financial statements."³⁶ Despite the significance of these lines of credit to Capstone's financial statements, Respondents failed to obtain or document an understanding of the business purpose for having both a line of credit receivable and a line of credit payable with similar terms between the same counterparties.³⁷

31. This failure to understand the business purpose of the arrangements also extended to individual transactions. Capstone's bank activity statements included in the FY 2013 Audit work papers reflect that, during the third and fourth quarters of 2013, Capstone repeatedly made cash withdrawals from its bank accounts shortly after receiving funds from either stock sales or revenue transactions. Each of these cash withdrawals were recorded by Capstone as advances to Affluent under the line of credit receivable. During the same time period, Capstone recorded numerous increases to the line of credit payable with Affluent, purportedly to reflect payment of expenses by Affluent that were made on Capstone's behalf. Respondents failed to obtain sufficient appropriate audit evidence in order to ascertain where the funds withdrawn by Capstone actually went and failed to inquire of management or obtain other sufficient appropriate audit evidence as to the business rationale of these transactions, including obtaining an understanding as to why Capstone was purportedly giving all its cash to Affluent.

32. Respondents also failed to follow up on red flags surrounding the related party transactions. With respect to the line of credit payable, Roy was aware of facts that called into question whether documentation underlying the transaction had been backdated and, as a result, whether the line of credit was properly authorized. This included copies of a board consent authorizing the line of credit payable and the contract establishing the line of credit payable in the Firm's work papers that purported to be from August 8, 2013, but which used the company's new name weeks before that name was approved by a different board consent. These purported August 8, 2013 documents were also signed by individuals who were not appointed to the titles used in them until August 26, 2013.

³⁶ AU § 334.09.

³⁷ See AU §§ 316.66-.67.

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33. Roy failed to evaluate, with due professional care and professional skepticism, the audit evidence obtained regarding the authorization and dating of the line of credit payable, and Respondents failed to perform procedures to obtain further evidence to address these inconsistencies.³⁸

34. In addition, bank account statements attributed to Affluent in the work papers, and used by the Firm for testing during the audit, were in the name of Capstone's CEO in his individual capacity and bore his home address. Roy initialed the bank account statements and related work papers tracing deposits into that bank account, as part of his review of his engagement team's work. Roy was aware at the time of the audit that personal loans to officers were prohibited.³⁹ Despite the red flags suggesting that funds from certain of the related party transactions were going into the personal bank account of Capstone's CEO, the Firm failed to design procedures to provide reasonable assurance of detecting illegal acts and Roy directly and substantially contributed to that violation.⁴⁰ Moreover, Roy failed to consider whether any of the money that was purportedly borrowed by Affluent was really an illegal personal loan to Capstone's CEO.⁴¹

Valuation of Related Party Lines of Credit

35. Respondents also failed to obtain sufficient appropriate audit evidence relating to the valuation of the line of credit receivable from Affluent and the line of credit payable to Affluent.⁴² The engagement team obtained, and Roy reviewed and initialed, confirmations for each line of credit from Capstone's CEO, who signed the confirmations on behalf of both Affluent and Capstone.

36. Respondents placed substantial reliance on the line of credit payable confirmation even though the day before the FY 2013 Form 10-K was filed, Capstone

³⁸ See AS 14 ¶¶ 3, 32-35; AS 15 ¶¶ 4-6, 9, 29; AU § 110.02; AU § 316.13; AU § 334.09.

³⁹ See Section 402 of the Act ("It shall be unlawful for any issuer ... directly or indirectly, including through any subsidiary, to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of that issuer.")

⁴⁰ See Section 10A(a) of the Exchange Act; PCAOB Rule 3502. See also AS 15 ¶¶ 4-6; AS 14 ¶¶ 3, 34; AU § 316.13; AU §§ 317.07, .09-.11.

⁴¹ See AS 15 ¶¶ 4-6, 29; AU §§ 317.07, .09-.11.

⁴² See AS 14 ¶¶ 3, 32-35; AS 15 ¶¶ 4-6, 8, 17; AU §§ 334.09-.10.

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found additional expenses that had purportedly been paid by Affluent on its behalf. Respondents were aware that these expenses had been found, but failed to perform any testing on the additional expenses and the related impact to the line of credit payable balance, other than to obtain an updated confirmation from Capstone's CEO, which was signed and returned by email six minutes after it was requested. As a result, the only evidence obtained with respect to the majority of the line of credit payable balance was from management representations.

37. Roy and the Firm also failed to adequately assess the collectibility of the line of credit receivable with Affluent.⁴³ The Firm's work papers conclude Capstone's CEO "is also the CEO of Capstone Affluent Strategies, Inc. As such, we believe that the Notes Receivable will be collectible" even though the line of credit receivable confirmation in the Firm's work papers makes clear that Capstone's CEO had not personally guaranteed the line of credit with Affluent. Respondents failed to perform any procedures to test the collectibility of the line of credit receivable. In addition, Respondents obtained Affluent's general ledger during the audit, which showed that Affluent had no assets, including no cash, and liabilities of over \$3 million as of December 31, 2013. Other than obtaining a management representation, Respondents failed to consider whether Affluent had substance apart from Capstone or the financial capability to be able to repay the line of credit receivable.⁴⁴ As noted above, Capstone eventually recorded a \$1,089,617 loss for the forgiveness of debt related to the cross lines of credit.

Expenses

38. Capstone reported \$309,691 in total operating expenses and a net loss of \$143,575 in its FY 2013 financial statements. In planning the FY 2013 Audit, the engagement team identified as a "primary concern[...that liabilities (and hence, expenses) are understated due to fraud and/or error." To address this risk, Respondents intended to "analyze expenses that should recur to ensure that they actually do." Further, the planning memorandum also indicates that the engagement team intended to select a portion of Capstone's expenses and test them for timing, classification, and amount.

39. As an initial matter, Respondents failed to subject the entire population of Capstone's operating expenses to sampling.⁴⁵ Respondents tested operating expenses

⁴³ Id.

⁴⁴ See AU § 316.67; AU § 333.04.

⁴⁵ See AU § 350.24; AS 15 ¶ 28.

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by performing "MUS sampling" (monetary unit sampling) and selecting ten expense items totaling \$90,649, or 29 percent of total operating expenses, for testing. While subsequently preparing its FY 2013 financial statements, however, Capstone identified approximately \$69,000 of additional operating expenses, which increased Capstone's operating expenses by over 28 percent. Despite the significance of these expenses to the FY 2013 financial statements, Respondents did not include these additional expenses as part of the population subjected to sampling and did not otherwise test the additional expenses.

40. Respondents also failed to obtain sufficient appropriate audit evidence relating to the nature and occurrence of expenses recorded by Capstone.⁴⁶ According to the Firm's work papers, for each item selected, Respondents obtained a copy of the relevant invoice and traced the amount to payment in Capstone's bank statements. Several of the items selected for expense testing purportedly related to expenses that Capstone incurred for consulting services. Although the engagement team obtained copies of invoices for these consulting services, the invoices did not contain dates indicating when the services were provided or otherwise contain any details about the consulting services. Roy, as engagement partner, reviewed and initialed each of the invoices used for expense testing. Roy knew or should have known that the information on the face of the invoices was insufficient to provide sufficient appropriate audit evidence concerning the nature of the expense and whether the expenses tested were recorded in the proper period.

41. Furthermore, evidence in the Firm's work papers reflect that Capstone paid expenses on behalf of Affluent which were then recorded by Capstone as increases to the line of credit receivable from Affluent. Respondents failed to obtain sufficient appropriate audit evidence to determine whether all expenses paid by Capstone on Affluent's behalf were properly recorded and disclosed in Capstone's FY 2013 financial statements.

42. Finally, Respondents failed to obtain sufficient appropriate audit evidence relating to the completeness of expenses recorded by Capstone.⁴⁷ Respondents were aware that Affluent was paying expenses on Capstone's behalf, which were then recorded by Capstone as increases to the line of credit payable to Affluent. However, other than obtaining a confirmation from Capstone's CEO of the balance outstanding on the line of credit payable to Affluent, the engagement team did not perform any testing to ensure that all expenses paid by Affluent on Capstone's behalf were properly

⁴⁶ See AS 15 ¶¶ 4-6.

⁴⁷ See id.

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recorded by Capstone.

Supervision of the Engagement Team

43. As the engagement partner, Roy was responsible for the Capstone engagement and its performance.⁴⁸ Accordingly, Roy was responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards.⁴⁹ Roy was required to review the work of engagement team members to evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached.⁵⁰ As discussed above, Roy and the engagement team failed to adequately plan the audit, including failing to properly assess the risks of material misstatement, and failed to obtain sufficient appropriate audit evidence in several audit areas. For each of these areas, Roy signed off as having reviewed the relevant work papers, but failed to recognize that not all planned work had been performed, and that the procedures performed, including those concerning related party transactions and expense testing, did not achieve the objectives of those procedures or support the conclusions reached.

G. Respondents Violated PCAOB Rules and Standards During the Q1 2014 Review

44. During the Q1 2014 Review, Respondents failed to perform sufficient procedures relating to the line of credit receivable from Affluent.⁵¹ The engagement team consisted of Roy and an audit senior, with Stokic again serving as the engagement quality reviewer.

45. Capstone previously announced that it had entered into the Merger Agreement with Affluent, whereby Affluent would become a wholly-owned subsidiary of Capstone, and that the merger had closed in January 2014. Capstone's Q1 2014 Form 10-Q, however, indicated that its merger with Affluent had been rescinded because Affluent was unable to provide audited financial statements as required by the Merger Agreement. The Form 10-Q also provided that the line of credit receivable with Affluent had increased by over \$430,000 to \$1,902,670 during the quarter, which represented

⁴⁸ See AS 10 ¶ 3.

⁴⁹ See id.

⁵⁰ See id. at ¶ 5.

⁵¹ See AU §§ 722.03, .18, .22.

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92.9 percent of Capstone's total reported assets. During the FY 2013 Audit, Respondents obtained a copy of Affluent's general ledger that was dated less than two weeks before the end of Q1 2014 and indicated that Affluent had no cash or other assets, and liabilities of \$3.1 million.

46. Despite the red flags raised by the rescinded merger, the lack of assets reflected in Affluent's general ledger, and Affluent's inability to provide audited financial statements, Respondents failed to make additional inquiries or perform other procedures in order to determine how these events might impact the collectibility of the line of credit receivable from Affluent.

H. Respondents Violated PCAOB Rules and Standards Related to Quality Control

47. The Firm did not have policies and procedures that provided it with reasonable assurance that the work performed by engagement personnel met applicable professional standards, regulatory requirements, or the Firm's standards of quality.⁵² The Firm also did not have policies and procedures that provided it with reasonable assurance that its quality control system was suitably designed and being effectively applied.⁵³

48. Roy knowingly caused the Firm to violate PCAOB standards by continuing to utilize an internally-developed risk assessment form after acknowledging to PCAOB inspectors that the form did not provide for an assessment that complied with PCAOB standards.⁵⁴ Roy used this risk assessment form for the FY 2013 Audit, as well as for several other issuer audits where he was the audit partner during this same time period, without otherwise assessing risks of material misstatement at the financial statement level and the assertion level.

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:

⁵² See QC §§ 20.17-.19.

⁵³ See *id.* at §§ 20.20.

⁵⁴ See PCAOB Rule 3502.

ORDER

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Seale and Beers CPAs, LLC is hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Seale and Beers CPAs, LLC is revoked;
- C. After one (1) year from the date of the Order, Seale and Beers CPAs, LLC may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- D. 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 payable by Seale and Beers CPAs, LLC is imposed. 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. Seale and Beers CPAs, LLC shall pay the \$20,000 civil money penalty within 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 payor 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 the Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;
- E. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Charlie B. Roy is hereby censured;
- F. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Charlie B. Roy is suspended for one (1) year from the date of this Order from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);⁵⁵

⁵⁵ As a consequence of the suspension, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Roy. Section 105(c)(7)(B) of the Act

ORDER

- G. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for one (1) year following the termination of the suspension ordered in paragraph F, Charlie B. Roy'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: Roy shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's Auditing Standard No. 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's Auditing Standard No. 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, 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, or supervise the work of another person exercising 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
- H. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 payable by Charlie B. Roy is imposed. 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. Charlie B. Roy shall pay the \$10,000 civil money penalty within 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 payor 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

provides that "[i]t 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."

ORDER

check shall be sent to the Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 14, 2017