



**ORDER**

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") as set forth below.<sup>3</sup>

**III.**

On the basis of Respondents' Offers, the Board finds that:<sup>4</sup>

**A. Respondents**

1. East West Accounting Services, LLC, is, and at all relevant times was, a limited liability company organized under the laws of the State of Florida and headquartered in Princeton, Florida. East West is registered with the Board pursuant to Section 102 of the Act and PCAOB rules. East West was licensed to practice public accountancy by the Florida Board of Accountancy (License No. AD69181). Its license expired on December 31, 2017. At all relevant times the Firm was the external auditor for Escue Energy, Inc. ("Escue").

2. Frasad Farooq, CPA, of Princeton, Florida, is a certified public accountant licensed by the Florida Board of Accountancy (License No. AC0022501) and the Georgia Board of Accountancy (License No. CPA033764). At all relevant times, Farooq was the sole proprietor of East West and served as engagement partner on the Escue audit discussed below. Farooq is 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**

3. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the issuance of an audit report on the financial statements of Escue. As detailed below, Respondents failed to obtain sufficient appropriate audit

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<sup>3</sup> 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.

<sup>4</sup> The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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evidence and exercise due care and professional skepticism in connection with the audit of the December 31, 2015 financial statements of Escue.

4. This matter also concerns the Firm's failure to comply with Auditing Standard No. 7, *Engagement Quality Review* ("AS 7").<sup>5</sup> In the Firm's audit of Escue's 2015 financial statements, the Firm failed to obtain an engagement quality review even though it was required under AS 7.

5. Additionally, Farooq took or omitted to take actions knowing, or recklessly not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of PCAOB rules and standards concerning the requirement for engagement quality reviews.

**C. Respondents Violated PCAOB Rules and Auditing Standards**

6. In connection with the preparation or issuance of any 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.<sup>6</sup> 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.<sup>7</sup> Those standards require, among other things, that an auditor plan and perform the audit to obtain appropriate audit evidence that is sufficient to provide a reasonable basis for the opinion expressed in the auditor's report.<sup>8</sup> PCAOB standards further require that an auditor exercise due professional care and professional skepticism in performing the audit.<sup>9</sup> PCAOB standards also require that an auditor evaluate

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<sup>5</sup> 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. 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 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* (Jan. 2017).

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

<sup>7</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>8</sup> See Auditing Standard No. 15, *Audit Evidence*, ¶ 4.

<sup>9</sup> See AU § 150, *Generally Accepted Auditing Standards* and AU § 230, *Due Professional Care in the Performance of Work*.

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whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.<sup>10</sup>

7. AS 7 requires that an engagement quality review be performed on audits, interim reviews, and certain attestation engagements conducted pursuant to PCAOB standards.<sup>11</sup> AS 7 also provides that a firm may grant permission to a client to use the engagement report only after an engagement quality reviewer provides concurring approval of issuance.<sup>12</sup>

8. PCAOB Rule 3502 prohibits an associated person of a registered public accounting firm from "tak[ing] or omit[ting] to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting 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."<sup>13</sup>

9. As described below, Respondents failed to comply with PCAOB rules and standards in connection with East West's audit of Escue's 2015 financial statements.

*Audit of Escue's 2015 Financial Statements*

10. Escue is a Nevada corporation headquartered in Dallas, Texas. Escue's public filings disclose that, at all relevant times, Escue was a development stage company that intended to design, manufacture and then market vertical axis wind turbine technology. Escue filed its Form S-1 Registration Statement with the U.S. Securities and Exchange Commission ("Commission" or "SEC") on October 23, 2015, and subsequently filed a Form S-1/A on July 7, 2016.<sup>14</sup> This amended registration statement included an audit report containing an unqualified audit opinion on Escue's financial statements for the year ended December 31, 2015. The Form S-1/A filed on July 7, 2016, was Escue's fourth amended Registration Statement. Escue ultimately filed ten

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

<sup>11</sup> See AS 7 ¶ 1.

<sup>12</sup> See AS 7 ¶ 13.

<sup>13</sup> See PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

<sup>14</sup> Escue reported in its Registration Statement filed on October 23, 2015, that its common stock traded on the OTC Markets – Pink Sheets.

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amended Registration Statements, prior to withdrawing its Registration Statement and all Amendments on October 30, 2017. At all relevant times, Escue was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

11. Farooq, as engagement partner, authorized the Firm's issuance of an audit report, dated July 2, 2016, expressing an unqualified audit opinion on Escue's financial statements for the year ended December 31, 2015. The audit report was included in the Form S-1/A filed with the Commission on July 7, 2016.

12. In Escue's 2015 financial statements, Escue disclosed as of and for the period ended December 31, 2015, consolidated total assets of \$40,000,010 for certain acquired patent rights and a net loss of \$461,000 in the fiscal year ended December 31, 2015.

13. In connection with the Escue 2015 Audit, Respondents failed to exercise due professional care and professional skepticism and failed to plan and perform the audit in accordance with PCAOB standards. Specifically, Respondents failed to establish an overall audit strategy for the engagement and to develop an audit plan.<sup>15</sup> Additionally, Respondents failed to perform any risk assessment procedures to identify and assess the risks of material misstatement.<sup>16</sup>

14. Escue's financial statements disclosed a transaction with a related party, Escue Wind S.L., to acquire certain patents for a turbine.<sup>17</sup> Escue paid Escue Wind S.L. \$10 and distributed 40,000,000 shares of Escue's common stock in consideration for the patents. Escue reported the transaction on the financial statements as \$6.28 million at "historical cost of the seller" and \$33.72 million as an additional "price for the patent purchase over and above the historical cost of the seller." Other than obtaining management representations, Respondents failed to perform any procedures to evaluate whether Escue's accounting for the patent rights was in conformity with U.S. generally accepted accounting principles ("GAAP").<sup>18</sup>

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<sup>15</sup> See Auditing Standard No. 9, *Audit Planning*, ¶¶ 6-10.

<sup>16</sup> See Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, ¶ 4.

<sup>17</sup> Escue Wind S.L. had acquired the patent rights from Saeed Quraeshi, Escue's Chairman of the Board and Chief Technology Officer.

<sup>18</sup> See AS 14 ¶ 30; see also Auditing Standard No. 18, *Related Parties* ("AS 18"), ¶ 17. Escue's July 7, 2016 Form S-1/A filing disclosed that, at the time of Escue's acquisition of the patents, Escue Wind S.L.'s Chief Executive Officer held more than 50% of the voting ownership interest of Escue and Escue Wind S.L. Accordingly, the

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15. On September 12, 2016, Escue filed another Form S-1/A disclosing the value of the acquired patents at \$10.

16. In addition, although Escue disclosed that the patents were acquired from a related party, Respondents failed to perform procedures to obtain an understanding of Escue's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements, including obtaining an understanding of Escue's process and performing inquiries.<sup>19</sup>

17. The Firm also failed to obtain an engagement quality review for the audit even though it was required to be performed. The Firm improperly permitted the issuance of its engagement report without first obtaining an engagement quality review for the audit and concurring approval of issuance.<sup>20</sup> As a result, the Firm violated AS 7.

18. Farooq, the sole owner of the Firm, was the engagement partner for the audit conducted by the Firm and was responsible for that audit. Accordingly, he had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. Farooq knew, or was reckless in not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of AS 7. As a result, Farooq violated PCAOB Rule 3502.

**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

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acquisition of the patents may have qualified as a transaction between entities under common control. When accounting for a transfer of assets between entities under common control, the receiving entity recognizes the assets transferred at their carrying amounts in the financial statements of the transferring entity on the date of the transfer. See Accounting Standards Codification 805-50-30-5, *Business Combinations: Transactions Between Entities Under Common Control*. In addition, transfers of nonmonetary assets to a company by its shareholders prior to or at the time of the company's initial public offering normally should be recorded at the transferor's historical cost basis determined under GAAP. See Standard Accounting Bulletin Topic 5: *Miscellaneous Accounting, G. Transfers of Nonmonetary Assets by Promoters or Shareholders* (SAB Topic 5.G).

<sup>19</sup> See AS 18 ¶ 3.

<sup>20</sup> See AS 7 ¶ 13.

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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), East West Accounting Services, LLC, and Frasad Farooq are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Frasad Farooq is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);<sup>21</sup>
- C. After two (2) years from the date of this Order, Frasad Farooq may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of East West Accounting Services, LLC, is revoked; and
- E. After two (2) years from the date of the Order, East West Accounting Services, LLC, may reapply for registration by filing an application pursuant to PCAOB Rule 2101.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

July 12, 2018

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<sup>21</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Farooq. 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."