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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS, AND  
IMPOSING SANCTIONS

In the Matter of Chisholm, Bierwolf, Nilson &  
Morrill, LLC, Todd D. Chisholm, CPA, and  
Troy F. Nilson, CPA,

*Respondents.*

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) PCAOB Release No. 105-2011-003

) April 8, 2011  
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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is revoking the registration of Chisholm, Bierwolf, Nilson & Morrill, LLC (the "Firm" or "CBNM"), and barring Todd D. Chisholm, CPA ("Chisholm") and Troy F. Nilson, CPA ("Nilson") (collectively, "Respondents") from being an associated person of a registered public accounting firm.<sup>1/</sup> The Board is imposing these sanctions on the basis of its findings that: (a) Chisholm and the Firm violated PCAOB rules, quality control standards, and auditing standards in connection with audits of three issuer clients between 2006 and 2007, noncooperation with a Board inspection, and noncooperation with a Board investigation; and (b) Nilson and the Firm violated PCAOB rules and auditing standards in connection with audits of two issuer clients between 2007 and 2008, noncooperation with a Board inspection, and noncooperation with a Board investigation.

**I.**

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, fair and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended ("Act"), and PCAOB Rules 5200(a)(1) and (3) against Chisholm, Bierwolf, Nilson & Morrill, LLC, Todd D. Chisholm and Troy F. Nilson.

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<sup>1/</sup> Nilson may file a petition for Board consent to associate with a registered public accounting firm after five (5) years from the date of this Order.

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### II.

In anticipation of the institution of 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 as to the Board's jurisdiction over Respondents 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.

### III.

On the basis of Respondents' Offers and information obtained by the Board in this matter, the Board finds<sup>2/</sup> that:

#### A. Respondents

1. Chisholm, Bierwolf, Nilson & Morrill, LLC is a Utah limited liability company with offices in Salt Lake City, Utah, and Bountiful, Utah.<sup>3/</sup> The Firm is licensed by the Utah State Board of Public Accountancy (License No. 5593082-2603). In 2003, the Firm registered with the Board pursuant to Section 102 of the Act and PCAOB Rules. The Firm issued 52 audit reports for fiscal years ending in 2006 and 49 audit reports for fiscal years ending in 2007. During this time, the Firm's public audit practice had two partners, Chisholm and Nilson, and between five and nine professional staff. The Firm's

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<sup>2/</sup> The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding. The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondents' conduct described in this Order meets the condition set out in Section 105(c)(5)(A), which provides that such 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.

<sup>3/</sup> The Firm formed in 2000 as "Bierwolf Nilson & Associates PC." Due to changes in partnership structure, the Firm's name changed to "Chisholm, Bierwolf and Nilson, LLC" in 2004, and finally to "Chisholm, Bierwolf, Nilson & Morrill, LLC" in 2009.

## **ORDER**

public audit clients are small issuers that generally trade on the OTC Bulletin Board or the Pink Sheets.

2. Todd D. Chisholm, 48, is a certified public accountant licensed in the State of Utah (License No. 163643-2601). At all relevant times, Chisholm was the Firm's managing partner, and was 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).

3. Troy F. Nilson, 45, is a certified public accountant licensed in the State of Utah (License No. 266146-2601). At all relevant times, Nilson was a partner at 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).

### **B. Summary**

4. This matter concerns violations by Chisholm and the Firm of PCAOB rules, quality control standards, and auditing standards in connection with audits of three issuer clients between 2006 and 2007, and violations by Nilson and the Firm of PCAOB rules and auditing standards in connection with audits of two issuer clients between 2007 and 2008. In each of these audit reports, the Firm expressed an unqualified audit opinion, and stated that the audit was conducted in accordance with PCAOB standards, and that the company's financial statements were fairly presented in all material respects in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). As detailed below, Respondents failed to perform sufficient audit procedures in connection with the issuance of these audit reports in violation of PCAOB rules and auditing standards, and failed to appropriately supervise the work of audit assistants. Respondents' failure to ensure that sufficient audit procedures were performed on the audits resulted from a poor system of quality control, including inappropriate reliance on inexperienced audit assistants, excessive partner workload and deficient audit documentation practices.

5. In addition, Respondents violated PCAOB rules by failing to cooperate with a Board inspection of the Firm in 2007 by adding, and directing the Firm's assistants to add, audit documentation to audit files in advance of the Board inspection. The Respondents engaged in this conduct after the audits' respective document completion dates. Furthermore, Respondents failed to cooperate with a Board investigation of the Firm by altering audit documentation prior to providing that documentation to the staff of the Division of Enforcement and Investigations ("Division staff" or "Division") during the course of a Board investigation relating to the above-referenced audits.

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### C. Chisholm and the Firm Violated PCAOB Rules and Quality Control Standards

6. PCAOB rules require that a registered public accounting firm comply with certain quality control standards.<sup>4/</sup> A firm should establish policies and procedures to encompass, among other things, (a) personnel management, (b) acceptance and continuance of clients and engagements, and (c) engagement performance.<sup>5/</sup> These policies and procedures should be communicated to the firm's personnel,<sup>6/</sup> and the firm should implement monitoring procedures to obtain reasonable assurance that its system of quality control is effective.<sup>7/</sup> In addition, 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 of Board standards by that firm.<sup>8/</sup> As described below, the Firm violated the Board's quality control standards in several respects, and Chisholm directly and substantially contributed to those violations.

#### Personnel Management

7. PCAOB standards provide that policies and procedures should be established to provide the Firm with reasonable assurance that, among other things, (1) those hired possess the appropriate characteristics to enable them to perform competently, and (2) work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.<sup>9/</sup> PCAOB standards further provide that the more able and experienced the personnel assigned to an engagement are, the less direct supervision is needed.<sup>10/</sup> The Firm failed to comply with these standards.

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<sup>4/</sup> See PCAOB Rules 3100, 3400T.

<sup>5/</sup> Quality Control ("QC") § 20.07.

<sup>6/</sup> QC § 20.23.

<sup>7/</sup> QC § 30.03.

<sup>8/</sup> See PCAOB Rule 3502.

<sup>9/</sup> QC § 20.13.

<sup>10/</sup> QC § 20.11.

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8. At the time of the Firm's 2006 issuer audit engagements, several of the Firm's audit assistants, who performed the majority of work on the audits, had no more than 2 years of auditing experience. These audit assistants were often hired directly out of college with little or no audit experience. Nevertheless, at all relevant times, the Firm failed to train assistants how to audit in accordance with PCAOB standards, thereby failing to reasonably ensure that the Firm's audits were performed in accordance with PCAOB standards.

### Acceptance and Continuance of Clients and Engagements

9. PCAOB standards require a firm to "[u]ndertake only those engagements that the firm can reasonably expect to be completed with professional competence."<sup>11/</sup> In calendar years 2006 and 2007, the Firm failed to comply with this standard by accepting more engagements than the Firm's partners and staff could appropriately manage and conduct. Specifically, Chisholm and Nilson each served as auditor with final responsibility for approximately 25 engagements, including domestic and international clients. During the same period, they each served as concurring reviewer on substantially all of each other's engagements.

10. The large number of clients severely limited the amount of time and attention that Chisholm and Nilson, the Firm's only audit partners, could spend providing supervision to audit assistants. As a result, planning for many audits consisted of little more than referring audit assistants to standardized audit programs and checklists, which failed to take into account, among other things, specific audit risks for each engagement.

11. The Firm's typical practice with respect to staffing audit engagements entailed one audit assistant teaming up with either Chisholm or Nilson. Consequently, the large number of issuer audit engagements prevented Chisholm and Nilson from providing appropriate supervision of audit procedures. Audit assistants with limited audit experience were often left to decide for themselves what audit procedures should be performed in an audit. Further, Chisholm and Nilson failed to properly evaluate whether the audit reports issued by the Firm were supported by sufficient competent evidential matter.

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<sup>11/</sup> QC § 20.15.

## ORDER

### Engagement Performance

12. PCAOB standards provide that a firm should develop policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>12/</sup> The Firm heavily relied on audit assistants who possessed little or no prior auditing or accounting experience. There were no policies and procedures in place to ensure that the staff performed procedures necessary to comply with PCAOB standards, or even knew what those standards required.

### Chisholm's Substantial Contribution to Quality Control Violations

13. Chisholm was the managing partner of the Firm during the relevant time period and was principally responsible for setting the tone at the top.<sup>13/</sup> As the managing partner, Chisholm was responsible for designing, implementing and monitoring the Firm's system of quality control.<sup>14/</sup> Accordingly, Chisholm had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. He also was responsible for ensuring that the Firm staffed its issuer audit engagements with audit staff who had sufficient professional competence and were properly supervised. Chisholm was aware of the minimal training and inexperience of the Firm's audit staff. Notwithstanding their lack of adequate training and experience, he staffed his audit engagements and allowed the Firm to staff other issuer audit engagements with that staff. Further, Chisholm knew that the level of supervision that he and Nilson provided to the audit staff was not sufficient to overcome their lack of training and experience. All of the Firm's conduct described in paragraphs 8 through 12 above was either conduct of Chisholm's or omissions to act for which Chisholm was responsible. With respect to all such acts and omissions, Chisholm knew, or was reckless in not knowing, that his acts and omissions would directly and substantially contribute to the Firm's quality control failings described above, which constituted violations of the Board's quality control standards. Chisholm thereby violated PCAOB Rule 3502.

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<sup>12/</sup> QC § 20.17.

<sup>13/</sup> Chisholm was also responsible for personnel decisions at the Firm and his compensation was considerably higher than that of the other partners, including Nilson's.

<sup>14/</sup> QC § 20.20.

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### **D. Respondents Violated PCAOB Rules and Auditing Standards**

14. In connection with the preparation and issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards and related professional practice standards.<sup>15/</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>16/</sup> Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidential matter to afford a reasonable basis for an opinion regarding the financial statements.<sup>17/</sup>

15. Respondents failed to meet these standards in connection with the audits of four issuers, specifically the audits of the financial statements of: Hendrx Corp. ("Hendrx") for calendar years 2006 and 2007; Powder River Petroleum International, Inc. ("Powder River") for calendar years 2006 and 2007; AlphaTrade.com ("AlphaTrade") for calendar year 2007; and Jade Art Group Inc. ("Jade Art") for calendar year 2008. As detailed below, (a) Chisholm and the Firm violated PCAOB rules and auditing standards in connection with audits of three issuer clients between 2006 and 2007, noncooperation with a Board inspection, and noncooperation with a Board investigation, and (b) Nilson and the Firm violated PCAOB rules and auditing standards in connection with audits of two issuer clients between 2007 and 2008, noncooperation with a Board inspection, and noncooperation with a Board investigation.

#### **1. Chisholm and the Firm's Audit Violations**

##### *a. Audits of Hendrx's 2006 and 2007 Financial Statements*

16. Hendrx is a Nevada corporation with its principal office in Vancouver, Canada. Its common stock is registered with the Securities and Exchange Commission ("Commission") under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") and is traded on the OTC Bulletin Board and the Pink Sheets. The company's

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<sup>15/</sup> See PCAOB Rules 3100, 3200T.

<sup>16/</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>17/</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; and AU § 326, *Evidential Matter*.

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public filings disclose that in 2004 it acquired 100% of the issued shares of Eastway Global Investment LTD, a British Virgin Islands corporation, and its wholly-owned operating subsidiary, Fujian Yuxin Electronic Equipment Co., based in the People's Republic of China. Hendrx's public filings disclose that it is engaged in the research, development, manufacture and distribution of water generation, filtration and purification devices. At all times relevant to this Order, Hendrx was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

17. The Firm audited Hendrx's 2006 financial statements and issued an audit report dated March 11, 2007, which was included in Hendrx's Form 10-KSB filed with the Commission on April 3, 2007.<sup>18/</sup> The Firm also audited Hendrx's 2007 financial statements and issued an audit report dated February 18, 2008, which was included in Hendrx's Form 10-K filed with the Commission on April 14, 2008. Chisholm was the audit engagement partner with final responsibility for both the 2006 and 2007 audits, while Nilson served as the concurring review partner.

18. Audit field work occurred primarily at the issuer's main operating facility in the People's Republic of China. Chisholm, who does not speak or understand Chinese, relied on Firm assistants with Chinese language skills to identify audit issues, communicate with management and third-parties, and analyze documents provided by the issuer.

### *i. Audit of Hendrx's 2006 Financial Statements*

19. Hendrx's 2006 financial statements disclose goodwill in the amount of \$31,854,137, representing 74% of total assets. Goodwill should be tested for impairment at least annually, and more frequently if events occur or circumstances change that would, more likely than not, reduce the fair value below its carrying amount.<sup>19/</sup> Chisholm and the Firm failed to perform sufficient audit procedures to determine whether management had appropriately tested goodwill for impairment. Even though Hendrx's financial statements disclose that its primary valuation technique for determining goodwill impairment was a discounted cash flow analysis, there is no

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<sup>18/</sup> On May 29, 2007, the issuer filed a Form 10-KSB/A for this same reporting period. The amendments contained in the 10-KSB/A were not related to the audited financial statements.

<sup>19/</sup> Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. See SFAS 142, "Goodwill and Other Intangible Assets," ¶¶ 18, 26 and 28.



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audit evidence indicating that Chisholm and the Firm obtained and reviewed such analysis.<sup>20/</sup> Moreover, Chisholm and the Firm failed to consider audit evidence indicating that current year revenues had declined by 50%, which contradicted management's representations concerning an expected increase in the demand for its product. Instead, Chisholm and the Firm, in violation of PCAOB standards, simply relied on management representations that goodwill should not be impaired.<sup>21/</sup>

20. In relying exclusively on management representations, Chisholm and the Firm also failed to consider other events and circumstances indicating the potential for impairment of goodwill, including (i) technical issues associated with Hendrx's primary product, (ii) impairment of the value of patents granted under the laws of the People's Republic of China ("Chinese Patents"), which related to Hendrx's primary product, and (iii) legal disputes concerning ownership rights in the Chinese Patents.<sup>22/</sup>

21. By accepting management's representation that goodwill was not impaired, Chisholm and the Firm also failed to obtain sufficient competent evidential matter to provide reasonable assurance that management's accounting estimates in determining the fair value of goodwill—which could have been material to the financial statements—had been developed, were reasonable under the circumstances, were presented in conformity with applicable accounting principles, and were properly disclosed.<sup>23/</sup> Chisholm and the Firm also failed to obtain an understanding as to how Hendrx developed its estimate concerning the fair value of goodwill, either by reviewing and testing the process used by management to develop the estimate, or by developing an independent expectation of the estimate to corroborate the reasonableness of management's estimate.<sup>24/</sup>

22. Hendrx's 2006 financial statements disclose that the Chinese Patents, which were included in intangible assets, had a net book value of \$1,238,093. Hendrx relied on a report prepared by a Chinese firm to appraise and assess the fair market value of its patents. Based on an appraisal prepared by the Chinese firm, Hendrx wrote

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<sup>20/</sup> See AU § 326, AU §230.

<sup>21/</sup> See AU §§ 333.02; 333.04, *Management Representations*.

<sup>22/</sup> See AU § 230.

<sup>23/</sup> See AU § 342.07, *Auditing Accounting Estimates*.

<sup>24/</sup> See AU § 342.10.

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down the value of the Chinese Patents by \$358,350, representing a 12% net loss for the year ended December 31, 2006. Chisholm and the Firm failed to perform sufficient audit procedures to evaluate if Hendrx's reliance on the report was appropriate. Chisholm and the Firm failed to evaluate appropriately the professional qualifications of the firm that prepared the appraisal to determine whether the firm possessed the necessary skill or knowledge to perform the appraisal, including whether the firm possessed any professional certification, license, or other recognition of the firm's competence as appraisers, the firm's reputation and standing in the views of its peers and others familiar with the firm's capability or performance, or the firm's experience in the type of appraisal work under consideration.<sup>25/</sup> Chisholm and the Firm also failed to obtain an understanding of the nature of the work performed by the firm that prepared the appraisal, including the objectives and scope of the firm's work, and any relationship with Hendrx.<sup>26/</sup> Finally, Chisholm and the Firm also failed to obtain an understanding of the methods and assumptions used by the firm that prepared the appraisal, to make appropriate tests of data provided to the firm, and to evaluate whether the findings with respect to the Chinese Patents supported the related assertions in the financial statements.<sup>27/</sup>

### *ii. Audit of Hendrx's 2007 Financial Statements*

23. Chisholm and the Firm violated various PCAOB auditing standards in the course of the 2007 Hendrx audit. During the 2007 audit, Chisholm and the Firm again failed to evaluate sufficiently management's reliance on the Chinese firm's report with respect to the appraisal of the fair value of the Chinese Patents.<sup>28/</sup>

24. Chisholm and the Firm also repeated the failures of the prior year's audit in connection with Hendrx's goodwill. During the 2007 audit, Chisholm and the Firm failed to perform sufficient audit procedures to test management's determination concerning the impairment of goodwill. Chisholm and the Firm initially determined that goodwill should be impaired by 50%. Without any apparent basis or audit evidence,

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<sup>25/</sup> See AU§336.08, *Using the Work of a Specialist*.

<sup>26/</sup> See AU § 336.09.

<sup>27/</sup> See AU § 336.12.

<sup>28/</sup> See AU §§ 336.08, 336.09, 336.12.

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Chisholm ultimately compromised with management that goodwill should be impaired by only 25%.<sup>29/</sup>

25. During the 2007 audit, Chisholm and the Firm also failed to perform a retrospective review of management's previous estimates of the fair value of goodwill and intangible assets to determine whether management's judgments and assumptions relating to the estimates indicated possible bias on the part of management and were reasonable.<sup>30/</sup>

26. Finally, Chisholm and the Firm failed to perform sufficient audit procedures related to the confirmation of certain accounts receivable selected for confirmation during the 2007 audit. Accounts receivable represented 17.5% of total current assets in Hendrx's 2007 financial statements. The engagement team failed to maintain control over the confirmation process and instead relied on the issuer's Chinese operating subsidiary's personnel to receive responses directly from the intended recipients and forward them to Firm auditors by email. Chisholm and the Firm took no steps to assure that the confirmations responses received were accurate, and relied on such confirmation responses to substantiate all of the confirmed accounts receivables of the operating subsidiary.<sup>31/</sup>

*b. Audit of AlphaTrade.com's 2007 Financial Statements*

27. AlphaTrade.com ("AlphaTrade") is a Nevada corporation based in Vancouver, Canada. Its common stock is registered with the Commission under Section 12(g) of the Exchange Act and is traded on the OTC Bulletin Board. In its public filings, the company states that it began as a web stock quote service that developed into a digital media marketing agency. At all relevant times, AlphaTrade was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii) .

28. The Firm audited AlphaTrade's 2007 financial statements. Chisholm was the auditor with final responsibility for the audit, and had supervisory responsibility for the assistants assigned to the engagement. Audit field work occurred at the issuer's

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<sup>29/</sup> See AU § 326; AU § 328, *Auditing Fair Value Measurements and Disclosures*, and AU § 230.

<sup>30/</sup> See AU § 316.64, *Consideration of Fraud in a Financial Statement Audit*.

<sup>31/</sup> See AU § 330.28, *The Confirmation Process*.

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facility in Vancouver, Canada. On January 18, 2008, the Firm issued an audit report which was included in the Form 10-K filed by AlphaTrade on April 2, 2008.

29. Chisholm and the Firm violated PCAOB standards during the 2007 audit of AlphaTrade. Chisholm and the Firm failed to exercise due professional care in the performance of the audit by failing to identify and address a departure from GAAP.<sup>32/</sup> The Firm's work papers contained all relevant agreements pertaining to AlphaTrade's advertising services, which included service periods extending beyond 2007 year end and into 2008. In exchange for these services, AlphaTrade accepted upfront payments in the form of equity securities issued by its customers. AlphaTrade was required to recognize revenue at the point in time in which revenue was realized or realizable and earned in accordance with GAAP, and to defer revenue relating to services to be provided in periods subsequent to its financial statements for which the related compensation had been received or recorded.<sup>33/</sup> Although the agreements pertaining to the issuer's advertising services featured elements requiring deferred revenue, the Firm did not determine that AlphaTrade should have been deferring revenue it was not deferring under these agreements.

30. During the audit of AlphaTrade's 2008 financial statements matters arose that led Chisholm and the Firm to review the prior year's audit documentation with respect to AlphaTrade's revenue agreements. During that review, the Firm realized that AlphaTrade had improperly recognized revenue under these agreements, as described above. As a result of this discovery, the issuer subsequently restated its 2007 financial statements, which reduced reported revenues by \$885,600 (approximately 15%) and increased reported net loss by the same amount, or 24%. The Firm thus issued a revised unqualified audit opinion dated March 17, 2009.

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<sup>32/</sup> An auditor's opinion that an issuer's financial statements are presented in conformity with GAAP must be based on an audit performed in accordance with PCAOB standards. PCAOB standards require an auditor to perform audit procedures sufficient to evaluate the issuer's adherence to GAAP. Any descriptions in this Order of audit failures relating to GAAP departures in an issuer's financial statements necessarily reflect the Board's judgment concerning the proper application of GAAP. Any such description of GAAP departures in this Order, however, should not be understood as an indication that the Securities and Exchange Commission has considered or made any determination concerning the issuer's compliance with GAAP.

<sup>33/</sup> See Statement of Financial Accounting Concepts No. 5, "*Recognition and Measurement in Financial Statements of Business Enterprises - Recognition Criteria*," ¶¶ 83-84.

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31. According to GAAP, at each reporting period, securities classified as available-for-sale are required to be assessed to determine whether a decline in fair value is other than temporary. If there is a decline in fair value that is other than temporary, then the cost basis of the security shall be written down to fair value and the amount of the write-down shall be accounted for as a realized loss, as opposed to inclusion in other comprehensive income.<sup>34/</sup> In AlphaTrade's 2007 financial statements, total marketable securities available-for-sale constituted \$664,090 (approximately 56%) of AlphaTrade's total assets. Chisholm and the Firm failed to perform any audit procedures to evaluate whether the decline in fair value of marketable securities available-for-sale was other than temporary.<sup>35/</sup> For all equity securities available-for-sale as of December 31, 2007 the fair value was 29% of cost basis; about one-half of those securities had been held greater than one year, for which fair value was only 6% of the original cost basis. Chisholm and the Firm failed to consider these factors indicating that the decline in fair value was other than temporary.<sup>36/</sup>

*c. Audit of Powder River's 2006 Financial Statements*

32. Powder River Petroleum International, Inc., formerly known as Powder River Basin Gas Corp. ("Powder River"), was an Oklahoma corporation with its principal office in Alberta, Canada. At all relevant times, Powder River's common stock was

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<sup>34/</sup> See SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," ¶ 16. See also Staff Accounting Bulletin Topic 5.M., "Other than Temporary Impairment of Certain Investments in Equity Securities," which provides the following examples of factors that, individually or in combination, indicate that a decline in value of an equity security classified as available-for-sale is other than temporary: (a) the length of time and the extent to which the market value has been less than cost, (b) the financial condition and near-term prospects of the issuer, and (c) the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

<sup>35/</sup> AlphaTrade filed restated 2007 financial statements for a second time on April 22, 2010, to recognize a 25% increase to its net loss resulting from a write-down for other than temporary impairment. Included with the second restated financial statements was a revised audit opinion by the Firm dated March 23, 2010. Since AlphaTrade had dismissed the Firm as its independent auditor on April 16, 2009, the Firm was not AlphaTrade's independent registered public accounting firm at the time of this second restatement.

<sup>36/</sup> See AU § 230.

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registered with the Commission under Section 12(g) of the Exchange Act and was traded on the OTC Bulletin Board and Pink Sheets. Powder River was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). Until placed into receivership in 2008, Powder River's public filings reported that it was in the business of acquiring, developing and reselling working interests in oil and gas properties.<sup>37/</sup> The company disclosed that it used the proceeds of such sales to acquire additional working interests and to develop oil fields for actual petroleum production. Powder River sold these working interests to various third-party purchasers ("Third Parties") through an intermediary investment group in Singapore, Oilpods Singapore Pte, Ltd ("Intermediary"), who marketed the working interests to the Third Parties in exchange for commissions. Sales of these working interests, net of commission, accounted for 95% of the issuer's total revenues in 2006, or \$13,174,394.<sup>38/</sup>

33. The Firm audited Powder River's 2006 financial statements. Chisholm was the auditor with final responsibility for the audit, and exercised supervisory responsibility for Firm assistants assigned to the engagement, while Nilson was the concurring review partner. Audit field work occurred at the issuer's offices in Alberta, Canada. On March 7, 2007, the Firm issued an audit report on Powder River's 2006 financial statements which was included in the Form 10-KSB filed by Powder River with the Commission on April 3, 2007.

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<sup>37/</sup> Oil and gas producing companies at times obtain exploration and development capital through the sale of "working interests" (or "operating interests") to third-parties, who provide capital in exchange for an entitlement to future earnings from the production and sale of oil and gas on the properties being developed. Owners of working interests bear most or all of the cost of development and operation of the property. *See AICPA Audit and Accounting Guides - Audits of Entities with Oil and Gas Producing Activities*, ¶¶ 1.15 and 1.30.

<sup>38/</sup> Powder River's 2006 financial statements, which were included in the Form 10-KSB filing, disclosed its revenue recognition policy for the sale of working interests as follows: "The Company is also in the business of selling working interest to an investment group in Singapore. As the Company finds and purchases new properties, it makes arrangements to sell partial working interests to various individuals referred by the Singapore group. The revenues are recorded as operating revenues, net of any commission or other costs associated with earning the revenues. The related percentage of capitalized cost of the property sold is also removed from the oil and gas property account and offset against the proceeds to calculate the net revenue recorded in the operating revenues."

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34. During the audit of Powder River's 2006 financial statements, Chisholm and the Firm violated various PCAOB standards, including a failure to perform sufficient audit procedures with respect to revenues recognized from the sale of working interests in oil and gas properties. Although Chisholm and the Firm were aware of a 9% guaranteed return owed by Powder River to the Third Parties, they failed to evaluate the impact of the guarantee on the accounting treatment for those sales. Chisholm and the Firm should have considered: (a) whether the 9% guaranteed return, which was not disclosed in Powder River's 2006 financial statements, ought to have been disclosed; and (b) whether the associated sales of working interests should have been accounted for as a borrowing as opposed to revenue.<sup>39/</sup> Chisholm and the Firm also failed to perform any procedures with respect to commissions owed to the Intermediary, which were netted against revenues and approximated 22% of total gross revenues from property and working interest sales.<sup>40/</sup>

35. Chisholm and the Firm also failed to consider, or exercise professional skepticism in evaluating, whether information obtained during the audit represented risk factors for fraud.<sup>41/</sup> This information included: (i) the high percentage of revenues (95%) from the sale of working interests in contrast to the minor amount of revenue realized through petroleum production (the remaining 5%), (ii) the issuer's commitment to pay a 9% return to the Third Parties irrespective of success or failure in the development of oil fields, and (iii) the ambiguous roles of the parties involved in the purchases and sales of working interests.<sup>42/</sup>

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<sup>39/</sup> Certain transactions, sometimes referred to as conveyances, are in substance borrowings repayable in cash or its equivalent and shall be accounted for as borrowings. See SFAS 19, "*Financial Accounting and Reporting by Oil and Gas Producing Companies*," ¶ 42-47.

<sup>40/</sup> See AU § 326 and AU § 230.07.

<sup>41/</sup> See AU §§ 316.13, and 316.31 - 316.34.

<sup>42/</sup> On September 2, 2008, Powder River filed a Form 8-K with the Commission disclosing that the Intermediary and certain Third Parties had filed suit against Powder River and its CEO. According to the Form 8-K filing, which incorporated the initial report of the court-appointed receiver, the Intermediary and the Third Parties alleged that the issuer and the CEO engaged in gross negligence and fraud in a number of respects, including (a) failing to drill or perform promised re-completion work on leases, (b) hiring an operator with a criminal and regulatory history of investor fraud, (c) failing to take steps to preserve company assets, (d) taking actions which caused the

## ORDER

36. Chisholm and the Firm inappropriately relied on uncorroborated representations by management in understanding the arrangements among the issuer, the Intermediary and the Third Parties,<sup>43/</sup> notwithstanding contradictory evidence.<sup>44/</sup> Chisholm and the Firm also inappropriately relied on testing and analysis of the sale of working interests prepared by a consultant hired by the issuer. Consequently, Chisholm and the Firm failed to exercise due professional care.<sup>45/</sup>

37. Generally, estimates of oil and gas reserves for financial reporting purposes are prepared by specialists, such as petroleum reservoir engineers and geologists. During the 2006 audit, Chisholm and the Firm relied on the work of specialists who had been retained by the issuer with respect to estimates of oil and gas reserves.<sup>46/</sup> Specifically, in assessing impairment and evaluating depletion expense with respect to capitalized costs of oil and gas properties, Chisholm and the Firm

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unreasonable loss of company assets, (e) withholding funds due to Powder River from affiliated entities controlled by the CEO, (f) transferring company assets without an exchange of reasonably equivalent value, (g) filing misleading reports with regulators, and (h) paying the CEO an exorbitant salary and bonuses that were not justified under the circumstances. At the time of this Order, that matter remained pending in the District Court of Tulsa County (State of Oklahoma), docket number CJ-2008-4855.

<sup>43/</sup> See AU § 333.04.

<sup>44/</sup> Some audit evidence suggested that the Intermediary acted as Powder River's sales agent. Other audit evidence indicated that the Intermediary itself purchased working interests from Powder River, and then resold the working interests to the Third Parties.

<sup>45/</sup> See AU § 230.07.

<sup>46/</sup> Estimates of oil and gas reserves are made by specialists for entities as a part of their ongoing business practices. Information about reserves typically may include, among other things, estimates of: (i) the reserves quantities; (ii) the future-producing rates from such reserves; (iii) the future net revenue from such reserves; and (iv) the present value of such future net revenue. The exact type and extent of such information must necessarily take into account the purpose for which it is being prepared and, correspondingly, statutory and regulatory provisions, if any, that are applicable to its intended use. See *AICPA Audit and Accounting Guides - Audits of Entities with Oil and Gas Producing Activities*, Appendix B, ¶ 1.1.



## ORDER

obtained and relied on only a few pages from each of the specialists' reports. Further, Chisholm and the Firm took no steps to evaluate the professional qualifications of the specialists to determine if they possessed the necessary skill or knowledge to perform the work, nor did they obtain an understanding of the nature of the specialists' work, including the objectives and scope of that work.<sup>47/</sup> Chisholm and the Firm failed to evaluate the specialists' relationship with the issuer.<sup>48/</sup> Finally, Chisholm and the Firm failed to perform procedures to obtain an understanding of the methods and assumptions used by the specialists, to make appropriate tests of the data provided to and used by the specialists, or to evaluate whether the specialists' findings supported the related assertions in the financial statements.<sup>49/</sup>

### **2. Nilson and the Firm's Audit Violations**

#### *a. Audit of Powder River's 2007 Financial Statements*

38. The Firm audited Powder River's 2007 financial statements. Nilson served as the auditor with final responsibility for the 2007 audit, and exercised supervisory responsibility for the Firm assistants assigned to the engagement.<sup>50/</sup> Audit field work occurred at the issuer's offices in Alberta, Canada. On March 19, 2008, the Firm issued an audit report which was included in the Form 10-KSB filing made by Powder River on April 14, 2008.

39. Nilson and the Firm violated PCAOB standards during the 2007 Powder River audit. This was Nilson's first year as the auditor with final responsibility for the Powder River audit, and Nilson had limited experience in performing audits related to the oil and gas industry. Despite these facts, Nilson failed to gain a sufficient understanding of the client's business or to obtain the technical competency needed to perform an audit in that industry.<sup>51/</sup> To prepare for the audit, Nilson merely relied on Chisholm's general descriptions of the client's business operations and financial

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<sup>47/</sup> See AU § 336.08, AU § 336.09.

<sup>48/</sup> See AU § 336.10.

<sup>49/</sup> See AU § 336.12.

<sup>50/</sup> The Firm represented that due to audit partner rotation rules, Chisholm rotated off of the engagement following the 2006 audit.

<sup>51/</sup> See AU §§ 230.05 and 230.06.

## ORDER

condition, and on the prior year's audit documentation. During the 2007 Powder River audit, planning consisted of little more than reference to the prior year's audit work papers, and referring Firm assistants to standardized audit programs and checklists. No steps were taken to identify the risks of material error or fraud and thereby develop a tailored audit plan.

40. Nilson and the Firm failed to obtain sufficient competent audit evidence regarding Powder River's sales of working interests. Nilson and the Firm relied on uncorroborated representations made by Powder River's management concerning Powder River's 2007 revenues.<sup>52/</sup> Specifically, Nilson and the Firm failed to obtain a sufficient understanding of the arrangements for revenues generated from the sales of working interests, including the impact on revenue of the 9% return on investment guaranteed by Powder River to the Third Parties. Nilson, without sufficient understanding of the industry and related revenue recognition methodologies to provide adequate supervision, relied on a Firm assistant to audit revenues.

41. Powder River's 2007 financial statements disclosed net accounts receivable of approximately \$1.2 million, which included an outstanding receivable from the Intermediary in the amount of \$510,000 (approximately 42% of total accounts receivable). Nilson and the Firm failed to obtain sufficient competent evidential matter to support this material outstanding receivable. Nilson and the Firm requested a confirmation from the Intermediary, and after the Intermediary failed to provide a response to the confirmation request, Nilson and the Firm failed to perform alternative procedures. Instead, Nilson and the Firm solely relied on an amount represented by management as owed by the Intermediary.<sup>53/</sup> Similarly, Nilson and the Firm failed to perform any audit procedures with respect to commissions earned by the Intermediary for the sales of working interests which, as noted above, were netted against revenues and accounted for approximately 23% of total gross revenues from working interest sales.

42. During the 2007 audit, Nilson and the Firm failed to consider or exercise professional skepticism in evaluating whether information obtained during the audit represented risk factors for fraud. This information included: (i) the high percentage of revenues from the sale of working interests (in contrast to the minor amount of revenue realized through oil production), (ii) the issuer's commitment to pay a 9% return to the Third Parties irrespective of the success or failure in the development of oil fields, and

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<sup>52/</sup> See AU § 326 and AU § 333.

<sup>53/</sup> See AU §§ 330.31 - 330.32, AU § 333.02.

## ORDER

(iii) the ambiguous roles of the parties involved in the purchases and sales of working interests.<sup>54/</sup>

43. During the 2007 audit, Nilson and the Firm inappropriately relied on the same few pages from the specialists' reports used during the 2006 audit in assessing impairment and evaluating depletion expense with respect to capitalized costs of oil and gas properties. As with the 2006 audit, Nilson and the Firm failed to take any steps to evaluate the professional qualifications of the specialists to determine if they possessed the necessary skill or knowledge to perform the work, and also failed to assess their relationship with the client and obtain an understanding of the nature of the work performed as required by PCAOB standards.<sup>55/</sup> Nilson and the Firm failed to obtain an understanding of the methods and assumptions used by the specialists, make appropriate tests of data provided to and used by the specialists, and evaluate whether the specialists' findings supported the related assertions in the financial statements.<sup>56/</sup> Compounding these failures was the fact that the reserve reports relied on by Nilson and Firm were the same reports used for the 2006 audit, even though such reports should have been updated at least annually.<sup>57/</sup>

44. Finally, Nilson and Firm failed to obtain sufficient competent evidential matter regarding amounts disclosed in the financial statements as notes payable and

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<sup>54/</sup> See AU § 316.13, and 316.31 to 316.34.

<sup>55/</sup> See AU §§ 336.08, 336.09 and 336.10.

<sup>56/</sup> See AU § 336.12.

<sup>57/</sup> See *AICPA Audit and Accounting Guides - Audits of Entities with Oil and Gas Producing Activities*, ¶2.88 ("Oil and gas companies should revise reserve estimates whenever there is an indication of the need for revision, at least annually"). See also, *id.*, at ¶5.106 (Capital Cost Limitations), which provides the following: "The full cost method prescribes a ceiling test for capitalized costs. The auditor should review the components of the cost ceiling computation to determine that they are computed in accordance with the prescribed guidelines. The rationale behind the ceiling test is that oil and gas property costs should be recoverable from the underlying assets. Therefore, any capitalized costs—net of accumulated [depletion, depreciation, and amortization] and related deferred income taxes—in excess of the ceiling are written off to expense. In those situations where costs approach or exceed the ceiling, it may be advisable to consider consultation with independent outside specialists."

## ORDER

represented by management to be outstanding from an installment sales agreement.<sup>58/</sup> The agreement related to Powder River's acquisition of a leasehold in an oilfield which was recorded as an asset within "Net Oil and Gas Properties" on Powder River's 2007 financial statements. According to the December 31, 2007 financial statements, the balance shown as notes payable under this agreement was \$5,025,000, or 47%, of total liabilities. When the Firm did not receive a response to its request for a confirmation concerning the unpaid balance, Nilson and the Firm performed alternative procedures, tracing installment payments to bank statements. Nilson and the Firm failed to exercise due professional care in performing this procedure, as they failed to identify from the bank statements that Powder River made these installment payments to an entity that was not the counterparty under the installment agreement.<sup>59/</sup> Moreover, the copy of the installment agreement contained in the audit documentation clearly stated that the final installment payment under the agreement had been due by December 15, 2006. Nilson and the Firm failed to investigate the circumstances surrounding these contradictions and corroborate management's representations that the installment agreement had been modified and the terms extended.<sup>60/</sup>

*b. Audit of Jade Art Group, Inc.'s 2008 Financial Statements*

45. Jade Art Group, Inc. ("Jade Art") is a Nevada corporation with its principal place of business in the People's Republic of China. Its common stock is traded on the OTC Bulletin Board and Pink Sheets. In its public filings, the company states that in 2008, it formed a wholly-owned Chinese subsidiary, JiangXi SheTai Jade Industrial Company Limited, to engage in the sale and distribution of raw jade throughout China. At all relevant times, Jade Art was an "issuer" as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

46. The Firm audited Jade Art's 2008 financial statements. Nilson was the auditor with final responsibility for the audit, and exercised supervisory responsibility for the Firm assistants assigned to the engagement. Nilson and Firm assistants performed audit field work at the issuer's offices in China. On May 15, 2009, the Firm issued an audit report, which was included in the Form 10-K filed with the Commission on May 18, 2009.

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<sup>58/</sup> See AU § 326.

<sup>59/</sup> See AU § 230.

<sup>60/</sup> See AU § 333.04.

## ORDER

47. Nilson and the Firm violated PCAOB standards during the 2008 Jade Art audit. Planning consisted of little more than referring Firm assistants to standardized audit programs and checklists. Nilson provided insufficient guidance to Firm assistants assigned to the audit beyond providing the standardized audit programs and checklists. Nilson improperly delegated to Firm assistants with insufficient audit experience the decisions about what audit procedures should be performed.<sup>61/</sup>

48. Nilson and the Firm violated additional PCAOB auditing standards during the 2008 Jade Art audit. The issuer disclosed that it had engaged in a non-monetary exchange transaction in which it had exchanged its rights in a wood-carving subsidiary for the exclusive right to distribute certain amounts of raw jade from a mining operation at specified prices. Generally, GAAP requires that the cost of the jade distribution right be determined by the fair value of the wood-carving subsidiary surrendered in that exchange, unless the fair value of the jade distribution right received was more clearly evident.<sup>62/</sup> In Jade Art's 2008 financial statements, the fair value of this distribution right comprised 98% of its total assets and was based on an appraisal of the wood-carving business relinquished in the exchange.

49. To test the amounts recorded by the issuer in the non-monetary exchange, Nilson and the Firm relied on unverified, unsigned documents that they understood to be translations of reports originally prepared by a Chinese appraisal organization. Nilson and the Firm took no steps to evaluate the professional qualifications of the appraisal organization to determine that it possessed the necessary skill or knowledge to perform the appraisals and reach the conclusions described in the appraisals. Nilson and the Firm did not assess the appraisal organization's professional certifications, license, or other recognition of its competence. Nilson and the Firm did not inquire as to the organization's reputation and standing in the views of its peers and others familiar with its past performance, nor did they inquire as to the organization's experience in the type of work under consideration, all as required by PCAOB standards.<sup>63/</sup> Nilson and the Firm failed to obtain an understanding of the methods and assumptions used by the appraisal organization, to make appropriate tests of data provided to and used by the appraisal organization, or to evaluate whether the appraisal

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<sup>61/</sup> See AU § 311.11.

<sup>62/</sup> See Statement of Financial Accounting Standards No. 153, *Exchanges of Nonmonetary Assets*, and Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions*.

<sup>63/</sup> See AU §§ 336.08.

## ORDER

organization's findings supported the related assertions in the financial statements. Nilson and the Firm failed to obtain an understanding of the nature of the work performed by the appraisal organization, including the objectives and scope of that work, and did not assess whether the organization had a relationship with the client.<sup>64/</sup> Finally, Nilson and the Firm failed to obtain copies of the original appraisal reports or any evidence that the documents on which they relied were true or complete translations of the original reports that they purported to represent.<sup>65/</sup>

50. Nilson and the Firm failed to obtain sufficient competent evidential matter regarding the amortization by Jade Art of the intangible distribution right. Specifically, Nilson and the Firm failed to determine whether the intangible distribution right was being amortized over the useful life to the reporting entity and whether the method of amortization reflected the pattern in which the economic benefits of the intangible asset were being consumed. Nilson and the Firm accepted Jade Art management's representation that the distribution right should be amortized on a straight line basis over 25 years, even though according to the contract, the life of the distribution right was 50 years.<sup>66/</sup>

51. During planning, Nilson and the Firm concluded that deteriorating business conditions in China warranted an evaluation of potential impairment of the intangible asset representing Jade Art's distribution right.<sup>67/</sup> Despite this conclusion, the Firm performed no audit procedures to test for the impairment of the intangible asset.<sup>68/</sup>

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<sup>64/</sup> See AU § 336.09.

<sup>65/</sup> See AU § 326.21.

<sup>66/</sup> See AU § 326, and Financial Accounting Standard 142, *Goodwill and Other Intangible Assets*, ¶11 (Determining the Useful Life of an Intangible Asset).

<sup>67/</sup> According to SFAS 142, ¶15, an intangible asset that is subject to amortization shall be reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires long lived assets to be tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Such events or changes in circumstances include, but are not limited to, current period operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of the long lived asset.

<sup>68/</sup> See AU § 328.20 to 328.22.

## ORDER

52. Nilson and the Firm failed to perform sufficient audit procedures to test Jade Art's costs of goods sold. Nilson and the Firm inappropriately relied on a substantive analytical review of month-to-month gross profit without either assessing the appropriateness of the resulting gross profit percentage or developing expectations to be used in connection with the analytical procedure.<sup>69/</sup>

### **E. Respondents Failed to Adequately Supervise Firm Assistants**

53. PCAOB standards require that audit field work "be adequately planned."<sup>70/</sup> In planning an audit, "the auditor should consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or set of written audit programs) for every audit."<sup>71/</sup> PCAOB standards require the auditor with final responsibility for the audit to direct the efforts of assistants who are involved in accomplishing the objectives of the audit, determine whether those objectives were accomplished, remain informed of significant problems encountered, and review the work performed, all commensurate with the complexity of the subject matter and the qualifications of the assistants.<sup>72/</sup>

54. Respondents violated these standards during the audit engagements described above. In each engagement, planning consisted of little more than referring Firm assistants to standardized audit programs and checklists. In addition, Respondents provided insufficient guidance to Firm assistants assigned to the audits beyond providing the standardized audit programs and checklists. Respondents improperly delegated decisions as to what audit procedures should be performed to Firm assistants with limited audit experience.<sup>73/</sup>

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<sup>69/</sup> See AU § 329.09 - .22, *Analytical Procedures*.

<sup>70/</sup> See AU § 311.01, *Planning and Supervision*.

<sup>71/</sup> See AU § 311.05.

<sup>72/</sup> See AU § 311.11.

<sup>73/</sup> See AU § 311.11.

## ORDER

### F. Respondents Engaged in Multiple and Repeated Violations of PCAOB Auditing Standard No. 3

55. Auditing Standard No. 3, *Audit Documentation*, ("AS No. 3") requires that an auditor prepare audit documentation in sufficient detail to document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions, and to demonstrate clearly that the work was in fact performed.<sup>74/</sup> Prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date).<sup>75/</sup> Circumstances may require additions to audit documentation after the report release date. While information and documentation may be added after that date, any added information or documentation must indicate the date the information was added, the name of the person who added the additional documentation, and the reason for adding it.<sup>76/</sup>

56. In the summer of 2007, Respondents received notice that the Board's Division of Registration and Inspections ("Inspections") planned to inspect the Firm in the fall of 2007. In preparation for the Board's inspection, Chisholm and Nilson, and at their instruction, Firm assistants, created and added audit documentation to the audit files that were subject to the inspection months after the audits' respective document completion dates. Chisholm and Nilson created and added audit documentation to the audit files to create the misleading appearance that the Firm had performed, documented and signed-off on audit procedures prior to the issuance of the audit opinions and the audit completion dates. Chisholm and Nilson did not document, or instruct the assistants to document, in the audit files that (1) the audit documentation described above had been created or changed after the documentation completion dates, or (2) certain audit procedures had been performed after the audit report release dates.

57. At the direction of Chisholm and Nilson, several Firm assistants spent hundreds of hours between August and October 2007 creating and adding this audit documentation to audit files that were subject to the Board's inspection. Among other

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<sup>74/</sup> See AS No. 3, ¶¶ 4 and 6.

<sup>75/</sup> See AS No. 3, ¶ 15.

<sup>76/</sup> See AS No. 3, ¶ 16.



## ORDER

documentation, audit programs and checklists were created and added to the 2006 audit files. For example, Chisholm, Nilson and Firm assistants created and added approximately 10 documents to the 2006 Powder River audit file and approximately 20 documents to the 2006 Hendrx audit file, all well after the audits' respective document completion dates. In addition, Firm assistants created and added audit documentation to at least 16 other audit files that were subject to the Board's 2007 inspection, months after the audits' respective document completion dates.

58. In a number of instances, Chisholm's and Nilson's efforts included directing Firm assistants to add information to the audit files to create the appearance that Firm auditors had performed certain audit procedures that had not, in fact, been performed during the audits. Specifically, under Chisholm and Nilson's supervision, Firm assistants performed audit procedures, including clearing engagement partner comments and reconciling the working trial balances provided by an issuer client to the published financial statements.

59. From October 29, 2007 to November 2, 2007, and from November 12, 2007 to November 15, 2007, PCAOB inspectors reviewed audit files for five issuer clients at the Firm's offices in Utah, including the 2006 audits of Powder River and Hendrx. During the inspection process, Chisholm and Nilson provided the altered audit documentation described above to Inspections without any clarification or explanation of the aforementioned changes and additions.

60. In addition, Respondents violated AS No. 3 with respect to the Firm's audit of AlphaTrade's 2007 financial statements. As described above, in 2009, the Firm identified information that led to the restatement of the AlphaTrade's 2007 financial statements. During that process, Respondents reviewed the Firm's 2007 audit documentation and discovered that, during the 2007 audit, the engagement team failed to determine that AlphaTrade improperly accounted for deferred revenues.<sup>17/</sup> As a result, Respondents caused certain information to be added to the audit documentation for accounts receivable that suggested that the engagement team had performed certain steps during the 2007 audit concerning accounts receivable. Respondents failed to specify the date on which these changes were made to the audit

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<sup>17/</sup> Respondents advised AlphaTrade of the error. As a consequence, on March 9, 2009, AlphaTrade filed a Form 8-K announcing that it intended to restate its 2007 financial statements. In a 10-K/A filed on March 23, 2009, AlphaTrade restated its financial statements, which included a revised audit opinion of the Firm dated March 17, 2009.

## ORDER

documentation, the name of the person making the changes, and the reasons for the changes.

### **G. Respondents Violated PCAOB Rule 4006 and Failed to Cooperate with the Board's Investigation**

#### ***1. Noncooperation in Connection with a Board Inspection***

61. PCAOB rules require registered firms and their associated persons to cooperate in the performance of any Board inspection.<sup>78/</sup> This obligation to cooperate includes "an obligation not to provide misleading documents or information in connection with the Board's inspection processes...."<sup>79/</sup> Respondents' conduct in creating and altering audit documentation in anticipation of a Board inspection violated PCAOB Rule 4006.

62. As detailed above, Respondents and Firm assistants (acting at the Respondents' instruction) created and added information to over a dozen audit files, including those related to Powder River and Hendrx, long after the audit report release dates in preparation for the 2007 PCAOB inspection of the Firm. Respondents and Firm assistants did so without specifying the dates the information was added, the names of the persons adding the information, and the reasons for adding the information. Audit documentation was added to the audit files in advance of a Board inspection to create the misleading appearance that the Firm had performed, documented and signed-off on audit procedures prior to the issuance of the audit opinions and the audit completion dates. In doing so, Respondents' conduct violated PCAOB Rule 4006.

#### ***2. Noncooperation In Connection with the Board's Investigation***

63. The Act authorizes the Board to impose disciplinary sanctions for a registered firm's or associated person's noncooperation with a Board investigation.<sup>80/</sup>

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<sup>78/</sup> See PCAOB Rule 4006.

<sup>79/</sup> *In the Matter of Drakeford & Drakeford, LLC and John A. DellaDonna, CPA*, PCAOB Release No. 105-2009-002, at 4.

<sup>80/</sup> See Section 105(b)(3) of the Act.

## ORDER

Board rules include procedures for implementing that authority.<sup>81/</sup> Noncooperation with a Board investigation includes knowingly making any false material declaration or making or using any other information, including any book, paper, document, record, recording, or other material, knowing the same to contain any false material declaration.<sup>82/</sup> As described below, Respondents failed to cooperate with a Board investigation by submitting audit documentation to the Division that they knew to contain false declarations.

64. On August 1, 2008 and May 6, 2009, as part of an informal inquiry, the Division requested that Respondents produce certain work papers, correspondence, billing information and other documents concerning particular engagements ("Document Requests"). Respondents subsequently provided certain material to the Division. On June 29, 2009, July 23, 2009, August 5, 2009 and October 26, 2009, as part of a formal investigation, the Division issued Accounting Board Demands ("ABDs") to Respondents for documents and for other materials. On July 31, 2009, Respondents, through their counsel, informed Division staff that Respondents were relying in part on their prior production in response to the Document Requests of August 1, 2008 and May 6, 2009 to fulfill their obligation to produce documents under the ABDs of June 29, 2009 and July 23, 2009. Thereafter, Respondents produced to the staff additional documents called for by the ABDs.

65. In response to and in preparation for providing audit documentation to the Division in response to the Document Requests and ABDs, Respondents, and at their instruction, Firm assistants, created and added audit documentation to the audit files that were subject to the Document Requests and ABDs, in addition to those files that had been subject to the previous inspection. Respondents produced to Division staff audit documentation that had been created or changed months after the documentation completion dates for the respective audits. The changes to the audit documentation were not annotated with the actual dates of the changes, the identities of the persons who made the changes, or the reasons for the changes.

66. Chisholm and Nilson knew this effort to create and complete audit documentation was designed to mislead the Division to conclude that such audit documentation had in fact been created during the various audits, and not subsequent to the release of the audit reports and documentation completion dates. As a result, Respondents failed to cooperate with a Board investigation.

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<sup>81/</sup> See PCAOB Rules 5110 and 5200(a)(3).

<sup>82/</sup> See PCAOB Rule 5110(a)(2).

**ORDER**

**IV.**

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, fair, 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 Sections 105(b)(3) and 105 (c)(4)(A) of the Act and PCAOB Rules 5300(a)(1) and 5300(b)(1), the registration of Chisholm, Bierwolf, Nilson & Morrill, LLC is permanently revoked;
- B. Pursuant to Sections 105(b)(3) and 105(c)(4)(B) of the Act and PCAOB Rules 5300(a)(2) and 5300(b)(1), Todd D. Chisholm is permanently 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);
- C. Pursuant to Sections 105(b)(3) and 105(c)(4)(B) of the Act and PCAOB Rules 5300(a)(2) and 5300(b)(1), Troy F. Nilson 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); and
- D. After five (5) years from the date of this Order, Troy F. Nilson may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ J. Gordon Seymour

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J. Gordon Seymour  
Secretary

April 8, 2011