Report on

2016 Inspection of Anton & Chia, LLP
(Headquartered in Newport Beach, California)

Issued by the

Public Company Accounting Oversight Board

October 30, 2017

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2018-003A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2018-003)
2016 INSPECTION OF ANTON & CHIA, LLP

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Anton & Chia, LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.C of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed audit work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the firm's system of quality control, those discussions also could eventually be made public, but only to the extent the firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix A presents the text of the paragraphs of the auditing standards that are referenced in Part I.A. in relation to the description of auditing deficiencies there.

PROFILE OF THE FIRM

Offices 4 (Newport Beach, San Diego, and Westlake Village, California; and Dallas, Texas)

Ownership structure Limited liability partnership

Partners / professional staff 2 / 25

Issuer audit clients 105

Lead partners on issuer audit work 4

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1 The information presented here is as understood by the inspection team, generally as of the outset of the inspection, based on the Firm’s self-reporting and the inspection team’s review of certain information. Additional information, including additional detail on audit reports issued by the Firm, is available in the Firm's filings with the Board, available at http://pcaobus.org/Registration/rasr/Pages/RASR_Search.aspx.

2 The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm’s professionals who participate in audits of issuers. The number of partners cited above represents the number of individuals with an ownership interest in the Firm.

3 The number of lead partners on issuer audit work represents the total number of Firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, Supervision of the Audit Engagement) during the twelve-month period preceding the outset of the inspection.
PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from November 28, 2016 to December 9, 2016.4

A. Review of Audit Engagements

The inspection procedures included review of portions of ten issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable

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4 For this purpose, "primary procedures" include field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. Primary procedures do not include (1) inspection planning, which is performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which extend beyond the primary procedures.
financial reporting framework. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are materially misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points. As indicated below, however, in two instances, the inspection team identified failures by the Firm to identify and address appropriately departures from Generally Accepted Accounting Principles ("GAAP") that appeared to the inspection team to be material.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.\(^5\)

The audit deficiencies that reached this level of significance are described below--

A.1. Issuer A

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that appeared to the inspection team to be material, which related to the accounting for inventory (AS 2810.30);

\(^5\) Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.
(2) the failure to perform sufficient procedures to test the valuation of inventory (AS 2301.08 and .11; AS 2501.07); and

(3) the failure to perform sufficient procedures to test revenue (AS 2301.08 and .13; AS 2810.30).

A.2. Issuer B

the failure to perform sufficient procedures to evaluate the accounting for, and presentation and disclosure of, a business combination (AS 2810.30-.31).

A.3. Issuer C

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that appeared to the inspection team to be material, which related the accounting for inventory (AS 2810.30); and

(2) the failure to perform sufficient procedures to test the valuation of inventory (AS 2301.08).

A.4. Issuer D

(1) the failure to perform sufficient procedures to test related party transactions and disclosures (AS 2301.08 and .11; AS 2410.17; AS 2810.30-.31); and

(2) the failure to perform sufficient procedures to test inventory (AS 2301.08; AS 2510.12).

A.5. Issuer E

the failure to perform sufficient procedures to test stock-based compensation issued to employees and non-employees for services provided (AS 2502.03 and .15; AS 2810.03 and .30).
A.6. Issuer F

the failure to perform sufficient procedures to evaluate the accounting for convertible debt (AS 2810.30).

A.7. Issuer G

the failure to perform sufficient procedures to evaluate whether certain intangible assets were impaired (AS 2501.11; AS 2502.03 and .15; AS 2810.30); and

A.8. Issuer H

the failure to perform sufficient procedures to test the valuation of goodwill (AS 2501.04; AS 2502.26 and .28; AS 2810.30).

A.9. Issuer I

the failure to perform sufficient procedures to test the valuation of inventory (AS 2301.08 and .13; AS 2501.04; AS 2810.03).

B. Auditing Standards

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. Paragraphs .02, .05, and .06 of AS 1015, Due Professional Care in the Performance of Work, require the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AS 1015.07-.09 and paragraph .07 of AS 2301, The Auditor's Responses to the Risks of Material Misstatement, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.
AS 2301.03, .05, and .08 require the auditor to design and implement audit responses that address the risks of material misstatement, and paragraph .04 of AS 1105, Audit Evidence, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A.

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited.

<table>
<thead>
<tr>
<th>PCAOB Auditing Standards</th>
<th>Issuers</th>
</tr>
</thead>
<tbody>
<tr>
<td>AS 2301, The Auditor’s Responses to the Risks of Material Misstatement</td>
<td>A, C, D, I</td>
</tr>
<tr>
<td>AS 2410, Related Parties</td>
<td>D</td>
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<tr>
<td>AS 2501, Auditing Accounting Estimates</td>
<td>A, G, H, I</td>
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<td>AS 2510, Auditing Inventories</td>
<td>D</td>
</tr>
<tr>
<td>AS 2810, Evaluating Audit Results</td>
<td>A, B, C, D, E, F, G, H, I</td>
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</tbody>
</table>
C. Information Concerning PCAOB Inspections that is Generally Applicable to Triennially Inspected Firms

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

C.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of internal control over financial reporting ("ICFR"). For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements, as well as a

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6 When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with the applicable financial reporting framework, the Board's practice is to report that information to the
firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS 1215, Audit Documentation, provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, an inspection team considers whether audit documentation or other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.\textsuperscript{7}

\textsuperscript{7} The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or
The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

C.2. Review of a Firm's Quality Control System

QC 20, System of Quality Control for a CPA Firm’s Accounting and Auditing Practice, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect or potential defect in a firm's quality control system. If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report may not discuss every audit deficiency the inspection team identified.
nature, significance, and frequency of deficiencies;\textsuperscript{9} related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. This review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

END OF PART I

\textsuperscript{9} An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.
PART II

** B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control.10

** B.1. Firm Management's Approach to Quality Control

The Firm has a responsibility to ensure that its personnel comply with PCAOB standards in the Firm's issuer audit practice. The Firm's organizational structure, adopted policies, and established procedures should combine to provide the Firm with reasonable assurance of compliance with those standards.

In a significant portion of the Firm's audit work reviewed in this inspection, the inspection team identified what it considered to be deficiencies in the performance of the work. The high incidence of such inspection observations is consistent with the incidence of such observations in the most recent previous inspection of the Firm. Moreover, the substance of certain of the observations in this inspection is essentially identical to the substance of observations in the previous inspection, including the observation of a deficiency in the Firm's auditing of the allocation of labor and overhead costs to inventory. These results indicate that the Firm's management lacks the necessary commitment to an approach to quality control that includes sufficient attention to –

- undertaking only those engagements that are reasonably within the professional competence of the Firm's personnel;

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10 This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during its assessment of whether the Firm has satisfactorily addressed the quality control criticisms or defects within the twelve months after the issuance of this report.
• assigning work on those engagements to persons who have the technical training and proficiency required in the circumstances;

• causing personnel to refer to authoritative literature or other sources and to consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues);

• providing adequate supervision, including review, by relevant engagement team members, and appropriate performance of engagement quality reviews; and

• implementing personnel management policies and procedures that contribute to personnel having the necessary motivation, and acting with the integrity and objectivity necessary to perform audit work appropriately, with due professional care, including with professional skepticism.

An appropriate approach to those fundamental quality control points should result in far fewer and less significant deficiencies than the inspection teams have regularly observed in reviewing the Firm's work. The Firm should enhance its understanding of each of those points, assess its commitment to them, and, if it intends to continue auditing issuers, implement changes in its policies and procedures necessary to provide reasonable assurance that its practices conform to PCAOB quality control standards.

B.2. Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –
B.2.a.  **Testing Appropriate to the Audit**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

B.2.a.i.  **Due Professional Care**

As discussed above, the inspection team reported identifying significant deficiencies related to the Firm's failure to perform sufficient procedures to (1) evaluate the accounting for, and presentation and disclosure of, a business combination [Issuer B]; (2) test inventory [Issuers C, D, and I]; (3) test related party transactions and disclosures [Issuer D]; (4) evaluate whether the accounting for convertible debt was appropriate [Issuer F]; and (5) evaluate whether intangible assets were impaired [Issuer G]. A similar significant deficiency related to the Firm's failure to perform sufficient procedures to test the valuation of inventory was also identified in the Firm's audit of Issuer C that was reviewed in the previous inspection of the Firm (in 2015). With respect to each of the deficiencies identified during the 2016 inspection, based on review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiency was attributable, at least in part, to the engagement personnel having approached that aspect of the audit without due professional care. This information provides cause for concern about whether the Firm's engagement personnel will perform all aspects of their work on issuer audits with due professional care.

B.2.a.ii.  **Technical Competence**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will assign personnel with the technical competence required to perform audit work in accordance with PCAOB standards. With respect to six of the audit deficiencies described in Part II.A, it appeared to the inspection team that the engagement personnel who performed and supervised the work did not possess sufficient technical knowledge, experience, or training necessary to enable them to fulfill the responsibilities of the work assigned. Specifically, with respect to the Firm's failure to identify and appropriately address a departure from GAAP that related to the accounting for inventory [Issuer A]; the Firm's failure to perform sufficient procedures to test the valuation of inventory [Issuer A]; the Firm's failure to perform sufficient procedures to test revenue [Issuer A]; the Firm's failure to identify and appropriately address a departure from GAAP that related to the accounting for inventory [Issuer C]; the Firm's
failure to perform sufficient procedures to evaluate the accounting for stock-based compensation [Issuer E]; and the Firm's failure to perform sufficient procedures to test the valuation of goodwill [Issuer H]; it appeared to the inspection team that the engagement personnel assigned to the audit did not have an appropriate understanding of the relevant PCAOB standards, and therefore had failed to develop appropriate audit responses.

B.2.b. Audit Documentation

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with the audit documentation and retention rules set forth in AS 1215. In eight of the audits reviewed, the Firm failed to assemble for retention, within 45 days of the report release date, a complete and final set of audit documentation. [Issuers A, B, C, F, G, H, I, and M]

B.2.c. Audit Methodology Related to Materiality

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with AS 2105, Consideration of Materiality in Planning and Performing an Audit. Specifically, for one of the audits reviewed, it appeared that the Firm failed to establish a materiality level for the financial statements as a whole that was appropriate in light of the particular circumstances and considering the relevant factors. In that audit, the Firm established, and designed its audit procedures based on, one materiality level for the consolidated financial statements and another substantially higher materiality level for its audit of a business combination. In doing so, the Firm failed to take into account the possibility that misstatements detected in testing the business combination could materially affect the consolidated financial statements. [Issuer B] In another audit reviewed, the Firm failed to re-evaluate the established materiality levels for its audit, which were based on the issuer's preliminary financial statement amounts that differed significantly from actual amounts. [Issuer G]

B.2.d. Communications with Audit Committees Related to the Conduct of the Audit

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with AS 1301, Communications with Audit Committees. Specifically, in one of the audits reviewed, the Firm failed to make any of the required communications. [Issuer A] In addition, in two of the audits
reviewed, the Firm failed to communicate: (1) an overview of the overall audit strategy, including the timing of the audit, and a discussion of significant risks identified during risk assessment procedures; (2) whether significant changes were made to the planned audit strategy or significant risks initially identified and the reasons for such changes; (3) other information in documents containing audited financial statements; (4) difficult or contentious matters for which the auditor consulted; and (5) matters relating to the auditor’s evaluation of the company’s ability to continue as a going concern. [Issuers E and F] Further, in one of the audits reviewed, although the Firm’s audit report included a going concern explanatory paragraph, the Firm failed to communicate its modification of the auditor’s standard report, the reasons for the modification, and the wording of the report. [Issuer E]

B.2.e. Client Acceptance and Continuance

The Firm’s system of quality control may not provide sufficient assurance that the Firm undertakes only those engagements that it can reasonably expect to complete with professional competence, taking into account the circumstances of competing time demands on the Firm’s engagement personnel assigned to lead the audits. Three individuals who each served as lead partner on one or more of eight of the audits with deficiencies described in Part II.A (and summarized in Part I.A) were the lead auditors on 40, 28, and 24 of the Firm’s audits during the inspection period. The inspection results provide cause for concern about whether, given the capability of individuals the Firm assigns to lead audits, the competing time demands of those audits contribute to failures to meet PCAOB standards in the performance of the audit work.

B.2.f. Engagement Quality Review

Questions exist about the effectiveness of the Firm’s system of quality control with respect to the execution of engagement quality reviews in compliance with AS 1220, Engagement Quality Review ("AS 1220"). An engagement quality review performed with due professional care in compliance with AS 1220 should have detected, and resulted in the Firm addressing, the deficiencies described in Part II.A related to the (1) accounting for inventory for Issuer A; (2) testing of inventory for Issuers A and I; (3) testing of revenue for Issuer A; (4) accounting for a business combination for Issuer B; (5) testing of related party transactions and disclosures for Issuer D; (6) accounting for convertible debt for Issuer F; (7) testing of intangible assets for Issuer G; and (8) testing of goodwill for Issuer H.
In addition, in three of the audits inspected, the assigned engagement quality reviewer had served as the engagement partner during the preceding audit for that issuer. AS 1220.08 provides that the person who served as the engagement partner during either of the two audits preceding the audit subject to the engagement quality review may not be the engagement quality reviewer. [Issuers J, K, and L]

B.2.g. Independence Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with independence requirements. In one of the audits reviewed, the Firm used professional staff from another firm but failed to take any steps that would provide the Firm with reasonable assurance that those individuals were independent of the issuer. Although the Firm obtained certain independence-related representations from the individuals, those representations addressed only the individuals' compliance generally with the other firm's independence policies, and did not address compliance with SEC and PCAOB independence criteria with respect to the particular issuer audit client of the Firm. [Issuer A]

B.3. Responding to Possible Illegal Acts

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with applicable requirements when the Firm becomes aware of information indicating the possibility that an illegal act may have occurred. As described in Part II.A above, in one of the audits reviewed, the inspection team identified an instance in which the Firm was aware that the issuer's CEO owed the issuer an amount representing approximately 10 percent of the issuer's total assets at year end. Although this information indicated the possibility that an illegal act may have occurred – specifically the possibility that the issuer had made a personal loan to the CEO in violation of Section 13(k) of the Securities Exchange Act of 1934 ("Exchange Act")\(^\text{11}\) – there was no evidence in the audit documentation, and no persuasive other evidence, 

\(^{11}\) Section 13(k)(1) provides that "it shall be unlawful for any issuer (as defined in Section 2 of the Sarbanes-Oxley Act of 2002), 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." Section 13(k)(2) identifies certain types of loans that are excepted from the prohibition in section 13(k)(1).
that the Firm had performed the necessary procedures to respond to that possibility. (Exchange Act section 10A(b); AS 2405.10-.11). [Issuer D]

* * * *
PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.\textsuperscript{12}

\textsuperscript{12} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.
September 6, 2017

Ms. Helen Munter
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

RE: Response to Part I of Draft Report on the 2016 Inspection of Anton & Chia, LLP

Dear Ms. Munter:

We are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2016 inspection of Anton & Chia, LLP dated August 15, 2017 ("Draft Report").

We take the findings noted in the Draft Report seriously and believe the inspection process assists us in identifying areas where we can continue to improve audit quality. We continue to support the PCAOB in its mission of protecting investors through audit oversight.

We have conducted a thorough evaluation of the matters identified in Part I of the Draft Report and are taking appropriate actions to address the engagement-specific findings in accordance with professional and firm standards.

Our top priority is to consistently perform high-quality audits and we renew our commitment to continuous improvement in our audit engagement performance and our system of audit quality control. We understand our responsibility to investors and other users of our audit reports. We are committed to continue working with the PCAOB in a positive and constructive manner to improve audit quality.

Sincerely yours,

Anton & Chia, LLP

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APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I.A

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB’s website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

<table>
<thead>
<tr>
<th>AS 2301, The Auditor’s Responses to the Risks of Material Misstatement</th>
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<tbody>
<tr>
<td>RESPONSSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES</td>
</tr>
<tr>
<td>AS 2301.08</td>
</tr>
</tbody>
</table>

Responses to Significant Risks

<table>
<thead>
<tr>
<th>AS 2301.11</th>
<th>For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note: AS 2110 discusses identification of significant risks and states that fraud risks are significant risks.</td>
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</tr>
</tbody>
</table>

Issuers A and D

Footnote to AS 2301.11

See AS 2110.71 for factors that the auditor should evaluate in determining which risks are significant risks.
### AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*

<table>
<thead>
<tr>
<th>Responses to Fraud Risks</th>
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</thead>
<tbody>
<tr>
<td>AS 2301.13</td>
<td><em>Addressing Fraud Risks in the Audit of Financial Statements.</em> In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs .16-.17 of this standard, the auditor should perform tests of those controls.</td>
<td>Issuers A and I</td>
</tr>
</tbody>
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### AS 2410, *Related Parties*

<table>
<thead>
<tr>
<th>Evaluating Financial Statement Accounting and Disclosures</th>
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<tbody>
<tr>
<td>AS 2410.17</td>
<td>The auditor must evaluate whether related party transactions have been properly accounted for and disclosed in the financial statements. This includes evaluating whether the financial statements contain the information regarding relationships and transactions with related parties essential for a fair presentation in conformity with the applicable financial reporting framework.¹⁹</td>
<td>Issuer D</td>
</tr>
</tbody>
</table>

Footnote to AS 2410.17

¹⁹ See AS 2810.30-.31

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### AS 2501, *Auditing Accounting Estimates*

<p>| AS 2501.04 | The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate | Issuers H and I |</p>
<table>
<thead>
<tr>
<th>AS 2501, Auditing Accounting Estimates</th>
<th>accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.</th>
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</table>

**EVALUATING ACCOUNTING ESTIMATES**

| AS 2501.07 | The auditor’s objective when evaluating accounting estimates is to obtain sufficient appropriate evidential matter to provide reasonable assurance that—  
|            | a. All accounting estimates that could be material to the financial statements have been developed.  
|            | b. Those accounting estimates are reasonable in the circumstances.  
|            | c. The accounting estimates are presented in conformity with applicable accounting principles and are properly disclosed. |

Issuer A

Footnotes to AS 2501.07

2 AS 2815, *The Meaning of “Present Fairly in Conformity With Generally Accepted Accounting Principles,”* discusses the auditor’s responsibility for evaluating conformity with generally accepted accounting principles.

3 See paragraph .31 of AS 2810, *Evaluating Audit Results.*

| AS 2501.11 | Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach:  
|            | a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation.  
|            | b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. |

Issuer G
### AS 2501, Auditing Accounting Estimates

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<tr>
<td>c.</td>
<td>Consider whether there are additional key factors or alternative assumptions about the factors.</td>
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<tr>
<td>d.</td>
<td>Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data.</td>
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<tr>
<td>e.</td>
<td>Analyze historical data used in developing the assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose.</td>
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<tr>
<td>f.</td>
<td>Consider whether changes in the business or industry may cause other factors to become significant to the assumptions.</td>
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<tr>
<td>g.</td>
<td>Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions.</td>
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<tr>
<td>h.</td>
<td>Consider using the work of a specialist regarding certain assumptions (AS 1210, Using the Work of a Specialist).</td>
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<tr>
<td>i.</td>
<td>Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.</td>
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### AS 2502, Auditing Fair Value Measurements and Disclosures

<table>
<thead>
<tr>
<th>INTRODUCTION</th>
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<tbody>
<tr>
<td>AS 2502.03</td>
<td>The auditor should obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures are in conformity with GAAP. GAAP requires that certain items be measured at fair value. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, defines the fair value of an asset (liability) as &quot;the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.&quot; Although GAAP may not prescribe the method for measuring the fair value of an item, it expresses a</td>
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Issuers E and G
### AS 2502, Auditing Fair Value Measurements and Disclosures

| Preference for the use of observable market prices to make that determination. In the absence of observable market prices, GAAP requires fair value to be based on the best information available in the circumstances. |

### Footnote to AS 2502.03

1 Generally accepted accounting principles (GAAP) contain various definitions of fair value. However, all of the definitions reflect the concepts in the definition that appears in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*. For example, Governmental Accounting Standards Board Statement of Governmental Accounting Standards No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, defines fair value as "the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale."

### Evaluating Conformity of Fair Value Measurements and Disclosures with GAAP

<table>
<thead>
<tr>
<th>Evaluation Conformity of Fair Value Measurements and Disclosures with GAAP</th>
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<tbody>
<tr>
<td><strong>AS 2502.15</strong></td>
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### Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data

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<tr>
<th>Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data</th>
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<tbody>
<tr>
<td><strong>AS 2502.26</strong></td>
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</table>
**AS 2502, Auditing Fair Value Measurements and Disclosures**

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<tr>
<td><strong>a.</strong></td>
<td>Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06).</td>
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<tr>
<td><strong>b.</strong></td>
<td>The fair value measurement was determined using an appropriate model, if applicable.</td>
</tr>
<tr>
<td><strong>c.</strong></td>
<td>Management used relevant information that was reasonably available at the time.</td>
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</table>

**AS 2502.28**

Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.

**Issuer H**

**AS 2510, Auditing Inventories**

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<tr>
<td><strong>Inventories</strong></td>
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<tr>
<td><strong>AS 2510.12</strong></td>
<td>When the independent auditor has not satisfied himself as to inventories in the possession of the client through the procedures described in paragraphs .09 through .11, tests of the accounting records alone will not be sufficient for him to become satisfied as to quantities; it will always be necessary for the auditor to make, or observe, some physical counts of the inventory and apply appropriate tests of intervening transactions. This should be coupled with inspection of the records of any client's counts and procedures relating to the physical inventory on which the balance-sheet inventory is based.</td>
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**Issuer D**

**AS 2810, Evaluating Audit Results**

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<tbody>
<tr>
<td><strong>EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS</strong></td>
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<tr>
<td><strong>AS 2810.03</strong></td>
<td>In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all</td>
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**Issuers E and I**
### AS 2810, Evaluating Audit Results

<table>
<thead>
<tr>
<th>AS 2810.30</th>
<th>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</th>
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<tbody>
<tr>
<td></td>
<td>Note: AS 2815, <em>The Meaning of &quot;Present Fairly in Conformity With Generally Accepted Accounting Principles,&quot;</em> establishes requirements for evaluating the presentation of the financial statements. AS 2820, <em>Evaluating Consistency of Financial Statements,</em> establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</td>
</tr>
<tr>
<td></td>
<td>Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.</td>
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<tr>
<td>AS 2810.31</td>
<td>As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.</td>
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<td>Note: According to AS 3101, if the financial</td>
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<td>issuers</td>
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AS 2810, *Evaluating Audit Results*

| | statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.  

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Footnote to AS 2810.31

18 AS 3101.41-.44.