

UNITED STATES OF AMERICA
Before The
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-20256

In the Matter of

CHRISTOPHER E. KNAUTH, CPA,

Respondent.

ANSWER OF RESPONDENT
CHRISTOPHER E. KNAUTH, CPA, TO
CEASE AND DESIST PROCEEDINGS
PURSUANT TO SECTIONS 4C AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934 AND RULE 102(e) OF THE
COMMISSION'S RULES OF PRACTICE

Respondent Christopher E. Knauth, CPA ("**Respondent**" or "**Knauth**") submits this *Original Answer* under Rule 220(b) of the Commission's Rules of Practice, 17 C.F.R. § 201.220(b) to the *Order Instituting Administrative Proceedings dated April 5, 2021* (the "**Order**") instituted by the U.S. Securities and Exchange Commission ("**SEC**" or the "**Commission**"). Respondent answers as follows:

I.

The Securities and Exchange Commission ("**Commission**") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Christopher E. Knauth, CPA ("**Respondent**" or "**Knauth**") pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 ("**Exchange Act**") and Rule 102(e)(1)(ii) and (iii) of the Commission's Rules of Practice.

Section I of the Order is noted.

II.

After an investigation, the Division of Enforcement and the Office of the Chief Accountant alleges that:

Summary

1. This proceeding arises from wholesale failures by Christopher E. Knauth in conducting the fiscal year 2018 audit and quarterly reviews for the periods ended June 30, 2018, September 30, 2018, and March 31, 2019, for Issuer A on behalf of Audit Firm A. At the outset,

Knauth failed to register Audit Firm A, of which he was a principal, with the Public Company Accounting Oversight Board (“PCAOB”). Further, the work Knauth performed during the audit and quarterly reviews for Issuer A failed to comply with multiple PCAOB auditing standards, in that Knauth (1) failed to properly plan the audit and to identify and assess risks of material misstatement; (2) failed to exercise due professional care and professional skepticism (including through the failure to obtain required engagement quality reviews (“EQRs”)); (3) failed to obtain sufficient appropriate audit evidence; and (4) failed to prepare adequate audit documentation.

1. While Knauth acknowledges the gravity of the allegations raised by the Commission in the Order, he has not had sufficient opportunity to fully consult with counsel at length, nor has any discovery been taken, or documents been produced. Knauth therefore submits this *Original Answer* in order to meet the deadline set by the Commission’s Rules of Practice. Notwithstanding this, Knauth and his counsel will engage with the Commission and respond with an amended pleading to fully set out his case in due course. With these qualifications in mind, Knauth lacks sufficient knowledge to admit or deny the allegations contained in paragraph 1 of the Order.

2. On behalf of Audit Firm A, Knauth falsely represented to Issuer A that it was registered with the PCAOB when conducting the audit and interim reviews for Issuer A, including in Audit Firm A’s audit report. Knauth also falsely represented in Audit Firm A’s audit report that Audit Firm A conducted its audit in compliance with PCAOB standards.

2. With regard to paragraph 2 of the Order, Knauth repeats paragraph 1 above.

3. As a result of Knauth’s conduct, Knauth willfully aided and abetted and caused Audit Firm A’s violations of Section 102(a) of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), willfully aided and abetted and caused Audit Firm A’s violation of Rule 2-02 (b)(1) of Regulation S-X, and willfully aided and abetted and caused Issuer A’s violations of Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. Knauth’s conduct also constituted improper professional conduct pursuant to Section 4C of the Exchange Act and Rule 102(e) of the Commission’s Rules of Practice.

3. As to paragraph 3 of the Order, insofar as the matters alleged call for legal conclusions, no response is required. Otherwise, Knauth denies that his conduct was willful or intentional, or causative of any purported violations of the relevant legislation by Issuer A. Paragraph 1 above is repeated.

A. RESPONDENT

4. Christopher Knauth, age 53, is a resident of Plano, Texas. Knauth was a founder and principal of Audit Firm A from October 2017 until December 2019. Prior to that, Knauth was a partner at three other accounting firms since 2003. Knauth has been licensed as a Certified Public Accountant in Texas since 1995.

4. Save that Knauth was a partner at two other accounting firms since 2008, Knauth admits the background matters alleged in paragraph 4 of the Order.

B. OTHER RELEVANT ENTITIES

5. Audit Firm A was a Texas professional limited liability company headquartered in Frisco, Texas, and founded in October 2017. While structured as a professional limited liability company, in practice, Knauth and his co-principal in Audit Firm A solely shared office space and certain limited overhead expenses, each maintaining separate clients and keeping revenue from his own client engagements. Audit Firm A was never registered with the PCAOB. Audit Firm A audited Issuer A's financial statements for the company's fiscal year ended December 31, 2018, and conducted interim reviews for Issuer A for the quarters ended June 30, 2018, September 30, 2018, and March 31, 2019. Knauth entered into the engagement with Issuer A and performed all of the audit work for Issuer A. Knauth's co-principal in Audit Firm A was unaware of the Issuer A engagement. Audit Firm A ceased operations in December 2019 and officially dissolved in September 2020.

5. As to paragraph 5 of the Order:

(a) Knauth admits the particulars of Audit Firm A pleaded above, including the dates of incorporation and dissolution.

(b) Knauth admits that Audit Firm A issued financial statements and conducted interim reviews as pleaded.

(c) Knauth avers that his co-principal at Audit Firm A was aware that Knauth was to conduct the reviews for Issuer A, but the co-principal did not participate with Issuer A's reviews of audit.

(d) Otherwise, save as pleaded above, paragraph 5 is denied, and paragraph 1 above is repeated.

6. Issuer A is a Nevada corporation headquartered in Plano, Texas. Issuer A was at all relevant times an issuer as defined by the Sarbanes-Oxley Act. Issuer A's common stock was registered with the Commission pursuant to Exchange Act Section 12(g). Issuer A's common stock was quoted on the OTCQB tier of the OTC Markets. Issuer A filed periodic reports, including Forms 10-K and 10-Q, with the Commission pursuant to Section 13(a) of the Exchange Act and the related rules thereunder. On October 24, 2019, Issuer A filed for bankruptcy. As part of the Delinquent Filings Program and unrelated to this action, on September 21, 2020, the Commission instituted an administrative proceeding against Issuer A pursuant to Section 12(j) of the Exchange Act and instituted a trading suspension pursuant to Section 12(k) of the Exchange Act. On November 23, 2020, the Commission accepted Issuer A's offer of settlement and, pursuant to Section 12(j) of the Exchange Act, revoked the registration of each class of Issuer A's securities.

6. As to paragraph 6 of the Order:

- (a) Knauth admits the particulars of Issuer A pleaded above, including the dates of incorporation and dissolution.
- (b) Knauth is not aware of compliance with SEC Regulations by Issuer A and so is unable to admit or deny these matters.
- (c) Knauth is not aware of the state of knowledge of any other parties and therefore is not able to admit or deny these matters.
- (d) Otherwise, save as pleaded above, paragraph 6 is denied, and paragraph 1 above is repeated.

C. FACTS

i. Engagement by Issuer A

7. On June 6, 2018, Knauth, on behalf of Audit Firm A, entered into an engagement agreement with Issuer A to perform the audit for the year ended December 31, 2018, as well as interim quarterly reviews for 2018. In addition to conducting the annual audit for the year ended December 31, 2018, Knauth conducted interim reviews on behalf of Audit Firm A for Issuer A for the second and third quarters of 2018, and the first quarter of 2019.

7. Insofar as paragraph 7 accurately quotes from or paraphrases the relevant documents, Knauth admits the facts and matters set out in paragraph 7 of the Order.

8. In that engagement agreement, signed by Knauth, Audit Firm A represented to Issuer A: “We are responsible for conducting our integrated audit of the financial statements and internal control over financial reporting in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB).”

8. With regard to paragraph 8, Knauth repeats paragraph 1 above and reserves the right to plead further.

9. The engagement agreement also provided that “Chris Knauth is the engagement partner and is responsible for supervising the engagement and signing the [audit] report or authorizing another individual to sign it.”

9. Knauth admits the facts and matters set forth in paragraph 9 of the Order.

ii. Failure to Register with the PCAOB

10. Prior to Audit Firm A’s engagement by Issuer A, neither Audit Firm A nor Knauth had performed any audit work for a public company, and at the time of Audit Firm A’s engagement by Issuer A in June 2018, Audit Firm A was not registered with the PCAOB. On August 16, 2018, Knauth signed and submitted to the PCAOB a Form 1, Application for Registration, on behalf of Audit Firm A. Knauth did not confer with his co-principal in Audit Firm A regarding the engagement with Issuer A or the PCAOB registration application.

10. As to paragraph 10 of the Order, Knauth responds as follows:

(a) Knauth avers that he reasonably believed that Audit Firm A was registered with the PCAOB at the time of issuance of the Form 1, Application for Audit Firm A.

(b) Knauth did not discover that Audit Firm was not registered with the PCAOB until August 2019.

(c) Otherwise, paragraph 10 is denied.

11. On August 28, 2018, after its initial review of the application, PCAOB staff sent an email to Knauth with requests for corrections and additional information, and, on September 17, 2018, the PCAOB issued a letter to Knauth requesting additional information regarding the application for registration. In the September 17, 2018 letter, the PCAOB made clear that the application had not been approved, warning that “[i]f [Audit Firm A] declines to provide the requested information, the Board may deem the application incomplete, as described in PCAOB Rule 2106(b)(2), may deem the application not to have been received in accordance with PCAOB Rule 2102, or may take other such action as the Board deems appropriate.”

11. Knauth is without sufficient knowledge or information to either admit or deny the matters pleaded in paragraph 11 of the Order.

12. Between October 2018 and April 2019, PCAOB staff sent seven follow-up emails to Knauth, attaching a copy of the September 17, 2018 letter and requesting to be advised of “[his] plans to resubmit [his] firm’s application for registration.” Additionally, in a March 15, 2019 telephone call initiated by Knauth, PCAOB staff reiterated to Knauth that he needed to respond to the PCAOB’s requests for information. Knauth did not provide responses to the PCAOB’s requests for information.

12. Knauth is without sufficient knowledge or information to either admit or deny the matters pleaded in paragraph 12 of the Order.

13. On May 9, 2019, the PCAOB informed Knauth by letter that, because the PCAOB had not received the additional requested information, the PCAOB deemed the application as not received. On the same day, Knauth informed PCAOB staff in a telephone call that he intended to “re-submit a new application” and that he would address the PCAOB’s questions related to the original application. Knauth never resubmitted an application for registration or provided responses to the PCAOB’s requests for information.

13. Knauth admits the facts and matters set out in paragraph 13 of the Order.

14. Despite failing to complete Audit Firm A’s registration with the PCAOB, Knauth conducted the annual audit of Issuer A’s financial statements for the fiscal year 2018. Knauth prepared and caused Audit Firm A to issue an audit report dated April 15, 2019, which Issuer A included in its Form 10-K for the year ended December 31, 2018 filed with the Commission. The audit report signed by Audit Firm A, through Knauth, falsely stated that “[w]e are a public accounting firm registered with the [PCAOB].”

14. As to paragraph 14 of the Order, Knauth responds as follows:

- (a) Knauth avers that he reasonably believed that Audit Firm A was registered with the PCAOB at the time of issuance of 2018 Form 10K.**
- (b) Knauth reasonably believed that Audit Firm A was registered with the PCAOB at the time of issuance in April 2019.**
- (c) Knauth is not aware whether Issuer A included the documents with its Form 10-K for the year December 31, 2018.**
- (d) Otherwise, Knauth did not discover that Audit Firm was not registered with the PCAOB until August 2019.**

15. Knauth also performed interim reviews on behalf of Audit Firm A for Issuer A for the quarters ended June 30, 2018, September 30, 2018, and March 31, 2019, despite Audit Firm A not being registered with the PCAOB.

15. As to paragraph 15, Knauth responds as follows:

- (a) Knauth repeats paragraph 14 above and avers that at the time he conducted the interim reviews, he believed that Audit Firm A was registered with the PCAOB;**
- (b) Without prejudice to the foregoing, Knauth admits that (i) he performed interim reviews for Issuer A as alleged, and (ii) that Audit Firm A was not registered with the PCAOB when it did so.**

16. On August 1, 2019, following initial notification from the PCAOB and subsequent discussions with Knauth regarding Audit Firm A's failure to register with the PCAOB, Issuer A filed a Form 8-K with the Commission announcing that (i) Issuer A's financial statements for fiscal year 2018 and quarters ended June 30, 2018, September 30, 2018, and March 31, 2019, which were included in Issuer A's annual report on Form 10-K or quarterly reports on Form 10-Q, should no longer be relied upon because they were not audited or reviewed by a registered public accounting firm; and (ii) Issuer A had dismissed Audit Firm A and retained a new firm as its independent registered public accounting firm. Issuer A has not filed updated reports with the Commission.

16. Knauth is without sufficient knowledge or information to either admit or deny the matters pleaded in paragraph 16 of the Order.

17. Audit Firm A received \$49,000 in fees, all of which went to Knauth, for its audit and review work for Issuer A. Between August and September 2019—after being contacted by Commission Staff—Knauth agreed to pay Issuer A a total of \$140,000 to reimburse it for the audit fees and for additional costs associated with Audit Firm A's failure to register with the PCAOB.

17. As to paragraph 17, Knauth responds as follows:

(a) Knauth admit that Audit Firm A received \$49,000 but denies that all of this sum was paid to Knauth.

(b) Insofar as any such discussions with Issuer A are arguably inadmissible under Rule 408 of the Federal Rules of Evidence, FED. R. EVID., Knauth admits that (i) Audit Firm A received \$49,000 in fees, and (ii) that he paid Issuer A a total of \$140,000. Otherwise, paragraph 17 is denied.

iii. Failure to Conduct Audit and Reviews in Accordance with PCAOB Standards

18. In conducting the fiscal year 2018 audit and the June 30, 2018, September 30, 2018 and March 31, 2019 interim reviews of Issuer A, Knauth's work was deficient and failed to comply with multiple PCAOB auditing standards. The audit work papers lack sufficient documentation to determine what, if any, work was conducted. The work papers reflect no audit planning. It appears from the existing documentation that Knauth merely obtained certain limited documents from Issuer A and did not perform further analysis sufficient to identify and appropriately assess the risks of material misstatement or exercise sufficient professional skepticism, including by conducting further questioning. Further, no engagement quality reviews, as required under PCAOB standards, were performed on Knauth's audit or interim review work.

18. Knauth is without sufficient knowledge or information to either admit or deny the matters pleaded in paragraph 18 of the Order. Paragraph 1 above is repeated.

19. Specifically, Knauth (1) failed to properly plan the audit and to identify and assess risks of material misstatement; (2) failed to exercise due professional care and professional skepticism (including through the failure to obtain required EQRs); (3) failed to obtain sufficient appropriate audit evidence; and (4) failed to prepare adequate audit documentation.

19. Knauth is without sufficient knowledge or information to either admit or deny the matters pleaded in paragraph 19 of the Order and therefore must deny the same. Paragraph 1 above is repeated.

20. As the engagement partner on the audit and reviews of Issuer A, Knauth was responsible for compliance with PCAOB standards. PCAOB Auditing Standard No. 1201, *Supervision of the Audit Engagement* ("AS No. 1201"); AS No. 1201.03.

20. Insofar as paragraph 20 calls for a legal conclusion, no response by Knauth is required.

21. Knauth aided and abetted and caused Audit Firm A to issue an audit report containing an unqualified audit opinion for Issuer A for the year ended December 31, 2018. The audit report falsely stated that the audit was performed "in accordance with the standards of the PCAOB," when, as described below, the audit failed to comply with PCAOB standards.

21. Insofar as paragraph 21 calls for several legal conclusions, no response by Knauth

is required. Otherwise, Knauth is unable to admit or deny the allegations set forth in paragraph 21 and reserves the right to plead further once discovery has been provided. Paragraph 1 is repeated.

Failure to Properly Plan the Audit (AS No. 2101) and Interim Reviews (AS No. 4105) and to Identify and Assess Risks of Material Misstatement (AS No. 2110)

22. PCAOB Auditing Standard No. 2101, *Audit Planning* (“AS No. 2101”), establishes requirements regarding planning an audit. AS No. 2101.01. “Planning the audit includes establishing the overall audit strategy for the engagement and developing an audit plan, which includes, in particular, planned risk assessment procedures and planned responses to the risks of material misstatement.” AS No. 2101.05.

22. Insofar as paragraph 22 calls for a legal conclusion, no response by Knauth is required. Otherwise, Knauth is unable to admit or deny the allegations set forth in paragraph 22 and reserves the right to plead further once discovery has been provided. Paragraph 1 is repeated.

23. The auditor should develop and document an audit plan that includes a description of: the planned nature, timing, and extent of the risk assessment procedures; the planned nature, timing, and extent of tests of controls and substantive procedures; and other planned audit procedures required to be performed so that the engagement complies with PCAOB standards. AS No. 2101.10.

23. Insofar as paragraph 23 calls for a legal conclusion, no response by Knauth is required. Otherwise, Knauth is unable to admit or deny the allegations set forth in paragraph 23 and reserves the right to plead further once discovery has been provided.

24. “The purpose and objective of planning the audit are the same for an initial audit or a recurring audit engagement. However, for an initial audit, the auditor should determine the additional planning activities necessary to establish an appropriate audit strategy and audit plan, including determining the audit procedures necessary to obtain sufficient appropriate audit evidence regarding the opening balances.” AS No. 2101.19.

24. Insofar as paragraph 24 is a statement of legal conclusions, Knauth is not required to state a response.

25. PCAOB Auditing Standard No. 4105, *Reviews of Interim Financial Information* (“AS No. 4105”), requires that, “[i]n an initial review of interim financial information, the accountant should perform procedures that will enable him or her to obtain sufficient knowledge of the entity’s business and its internal control.” AS No. 4105.12. In planning a review of interim financial information (following an initial review), the accountant should perform procedures to update his or her knowledge of the entity’s business and internal control to aid in determining

inquiries to be made and analytical procedures to be performed, and to identify particular events, transactions, or assertions to which the inquiries may be directed or analytical procedures applied. AS No. 4105.11.

25. Insofar as paragraph 25 is a statement of legal conclusions, Knauth is not required to state a response.

26. Knauth failed to engage in any meaningful audit planning process in connection with Audit Firm A's audit of Issuer A's fiscal year 2018 financial statements and interim reviews for June 30, 2018, September 30, 2018, and March 31, 2019. Among other things, Knauth failed to develop any audit plan that included a description of the planned nature, timing, and extent of the risk assessment procedures; the planned nature, timing, and extent of tests of controls and substantive procedures; and any other planned audit procedures required to be performed. Nor did Knauth perform any planning procedures to obtain knowledge of, or to update his knowledge of, Issuer A's business and internal control. In failing to engage in such planning, Knauth failed to comply with AS No. 2101 and AS No. 4105, among others.

26. Insofar as paragraph 26 is a statement of legal conclusions, no response by Knauth is required. Otherwise, Knauth is unable to admit or deny the allegations set forth in paragraph 26 and reserves the right to plead further once discovery has been provided.

27. PCAOB Auditing Standard No. 2110, *Identifying and Assessing Risks of Material Misstatement* ("AS No. 2110"), requires the auditor to "perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud." AS No. 2110.04.

27. Insofar as paragraph 27 is a statement of legal conclusions, Knauth is not required to state a response.

28. In addition, under AS No. 4105, if the accountant has not audited the most recent annual financial statements, the accountant should perform procedures to obtain knowledge of an entity's internal control, including knowledge of the relevant aspects of the control environment, the entity's risk assessment process, control activities, information and communication, and monitoring, as those terms are defined in AS No. 2110. AS No. 4105.13; *see also* AS No. 4105.10; AS No. 4105.12 ("[i]n an initial review of interim financial information, the accountant should perform procedures to enable him or her to obtain sufficient knowledge of the entity's business and its internal control," including considering the nature of any risks of material misstatement due to fraud identified by the predecessor auditor).

28. Insofar as paragraph 28 is a statement of legal conclusions, Knauth is not required to state a response.

29. "Risks of material misstatement can arise from a variety of sources, including external factors, such as conditions in the company's industry and environment, and company-specific factors, such as the nature of the company, its activities, and internal control over

financial reporting.” AS No. 2110.05. “Thus, the audit procedures that are necessary to identify and appropriately assess the risks of material misstatement include consideration of both external factors and company-specific factors.” AS No. 2110.05.

29. Insofar as paragraph 29 is a statement of legal conclusions, Knauth is not required to state a response.

30. Knauth did not perform sufficient risk assessment procedures, and did not perform steps, such as obtaining an understanding of Issuer A’s activities, environment or internal control over financial reporting. As such, Knauth failed to comply with AS No. 2110 and AS No. 4105.

30. Insofar as paragraph 30 is a statement of legal conclusions, no response by Knauth is required. Otherwise, Knauth is unable to admit or deny the allegations set forth in paragraph 26 and reserves the right to plead further once discovery has been provided.

Failure to Exercise Due Professional Care and Professional Skepticism (AS No. 1015) and Failure to Obtain Engagement Quality Reviews (AS No. 1220)

31. PCAOB Auditing Standard No. 1015, *Due Professional Care in the Performance of Work* (“AS No. 1015”), requires auditors to exercise due professional care in the planning and performance of the audit and the preparation of the report and in conducting interim reviews. AS No. 1015.01; AS No. 4105.01 (noting that AS No. 1015 applies to interim reviews). Auditors are required further to exercise professional skepticism, which is an attitude that includes “a questioning mind and a critical assessment of audit evidence.” AS No. 1015.07

31. Insofar as paragraph 31 is a statement of legal conclusions, Knauth is not required to state a response.

32. In addition, the auditor should “consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process.” AS No. 1015.08.

32. Insofar as paragraph 32 is a statement of legal conclusions, Knauth is not required to state a response.

33. In addition, PCAOB Auditing Standard No. 1220, *Engagement Quality Review* (“AS No. 1220”), provides that for both audits and interim reviews, an engagement quality reviewer should, among other things, “evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement.” AS 1220.09 and .14. “Documentation of an engagement quality review should be included in the engagement documentation.” AS 1220.20.

33. Insofar as paragraph 33 is a statement of legal conclusions, Knauth is not required to state a response.

34. Beyond merely obtaining certain limited documents from Issuer A, Knauth did not conduct sufficient audit procedures to assess such audit evidence. As such, Knauth failed to exercise due professional care and professional skepticism in violation of AS No. 1015, among others.

34. Insofar as paragraph 35 is a statement of legal conclusions, no response is required. Otherwise, paragraph 35 is denied.

35. Further, Audit Firm A did not perform the procedures described in AS No. 1220 and did not obtain any EQR with regard to the audit and interim reviews. As such, Audit Firm A violated AS No. 1220, and, by failing to arrange for the EQRs, Knauth further failed to exercise due professional care.

35. Insofar as paragraph 35 is a statement of legal conclusions, no response is required. Otherwise, paragraph 35 is denied.

Failure to Obtain Sufficient Appropriate Audit Evidence (AS No. 1105)

36. PCAOB Auditing Standard No. 1105, *Audit Evidence* (“AS No. 1105”) requires an auditor to “plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.” AS No. 1105.04. “Audit evidence is all the information, whether obtained from audit procedures or other sources, that is used by the auditor in arriving at the conclusions on which the auditor’s opinion is based.” AS No. 1105.02.

36. Insofar as paragraph 36 is a statement of legal conclusions, no response is required.

37. By merely obtaining certain limited documents from Issuer A, without performing sufficient audit procedures to assess that audit evidence, Knauth failed to obtain sufficient appropriate audit evidence to support Audit Firm A’s issuance of the audit report for Issuer A’s fiscal year 2018 financial statements. As such, Knauth failed to comply with AS No. 1105, among others.

37. Without knowledge of the specific factual allegations and without the benefit of discovery, Respondent lacks sufficient information to admit or deny these allegations.

*Failure to Prepare Adequate Documentation
for the Audit (AS No. 1215) and Interim Reviews (AS No. 4105.52)*

38. In conducting an audit or interim review, an auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions. PCAOB Auditing Standard No. 1215, *Audit Documentation* (“AS No. 1215”). Audit documentation must clearly demonstrate that the work was in fact performed and “must contain sufficient information to enable an experienced auditor, having no previous

connection with the engagement (a) to understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and (b) to determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.” AS No. 1215; AS No. 1215.06.

38. Insofar as paragraph 38 is a statement of legal conclusions, no response is required. Otherwise, paragraph 38 is denied.

39. In connection with interim reviews, in addition to the requirements under AS No. 1215, under AS No. 4105 “the documentation should (a) enable members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent, and results of the review procedures performed; (b) identify the engagement team member(s) who performed and reviewed the work; and (c) identify the evidence the accountant obtained in support of the conclusion that the interim financial information being reviewed agreed or reconciled with the accounting records.” AS No. 4105.52.

39. Insofar as paragraph 39 is a statement of legal conclusions, no response is required. Otherwise, paragraph 39 is denied.

40. As described above, Audit Firm A’s work papers contain no audit program and lack documentation to determine what, if any, procedures were performed or conclusions reached with respect to the audit and interim reviews of Issuer A. As such, Knauth failed to comply with AS No. 1215 and AS No. 4105, among others.

40. Insofar as paragraph 40 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 40 of the Order is denied. Notwithstanding this, and as set forth above, Knauth reserves the right to seek to file an amended pleading once parties have engaged in discovery.

D. VIOLATIONS

41. Section 102(a) of the Sarbanes-Oxley Act provides that “it shall be unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer.” Audit Firm A was not registered with the PCAOB when it performed the audit and interim reviews of Issuer A and, accordingly, violated Section 102(a) of the Sarbanes-Oxley Act. Knauth willfully aided and abetted and caused Audit Firm A’s violations of Section 102(a) of the Sarbanes-Oxley Act.

41. Insofar as paragraph 42 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 42 of the Order is denied. Notwithstanding this, and as set forth above, Knauth reserves the right to seek to file an amended pleading once parties have engaged in discovery.

42. Rule 2-02(b)(1) of Regulation S-X requires an accountant’s report to state “the

applicable professional standards under which the audit was conducted.” 17 CFR 210.2-02(b)(1). An auditor violates Regulation S-X Rule 2-02(b)(1) if it issues a report stating it has conducted its audit in accordance with PCAOB standards when it has not. Audit Firm A violated Rule 2-02(b)(1) of Regulation S-X by issuing an audit report for Issuer A’s fiscal year 2018 audit stating that it had conducted the audit in accordance with PCAOB standards when it had not.

42. Insofar as paragraph 43 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 43 of the Order is denied.

43. Section 13(a) of the Exchange Act and Rule 13a-1 thereunder require issuers with equity securities registered under Section 12 to file annual reports with the Commission that have been audited by an independent public accountant registered with the PCAOB. Exchange Act Rule 13a-13 requires the same companies to file with the Commission accurate quarterly reports on Form 10-Q. Rule 10-01(d) of Regulation S-X requires the interim financial statements included in a Form 10-Q to be reviewed by an independent public accountant registered with the PCAOB. 17 C.F.R. § 210.10-01(d); *see also* 17 C.F.R. § 210.8-03. Issuer A filed an annual report on Form 10-K for fiscal year 2018 and quarterly reports on Form 10-Q for the quarters ended June 30, 2018, September 30, 2018, and March 31, 2019, all of which were either audited or reviewed by Audit Firm A when Audit Firm A was not registered with the PCAOB. Knauth willfully aided and abetted and caused Issuer A’s violations of Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder.

43. Insofar as paragraph 44 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 44 of the Order is denied.

44. Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice provide, in part, that the Commission may censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct. With respect to persons licensed to practice as accountants, “improper professional conduct” includes “intentional or knowing conduct, including reckless conduct, that results in a violation of applicable professional standards.” *See* Rule 102(e)(1)(iv)(A). In addition, “improper professional conduct” includes either of the following two types of negligent conduct: (i) “a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted;” or (ii) “repeated instances of unreasonable conduct, each resulting in violations of applicable professional standards, that indicate a lack of competence to practice before the Commission.” *See* Rule 102(e)(1)(iv)(B)(1) and (2). By failing to comply with PCAOB standards in the audit and interim reviews of Issuer A, as described above, Knauth engaged in improper professional conduct as defined in Rule 102(e)(1)(iv).

44. Insofar as paragraph 44 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 44 of the Order is denied.

45. Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice provide, in part, that the Commission may censure a person or deny,

temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission “[t]o have willfully violated, or willfully aided and abetted the violation of, any provision of the Federal securities laws or the rules and regulations thereunder.” Through the conduct described above, Knauth willfully aided and abetted violations of the federal securities laws and rules and regulations thereunder within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice.

45. Insofar as paragraph 45 consists of legal conclusions, no response by Knauth is required. Otherwise, paragraph 45 is denied.

III.

As to Sections III and IV of the Order, Knauth notes the Commission’s position and will engage with the Commission in the resolution of these proceedings.

IV.

WHEREFORE, Knauth respectfully requests that the Administrative Law Judge enter a judgment in his favor as follows:

- A. The Order be dismissed with prejudice;
- B. Any and all other relief as the Judge may deem just and proper.

Dated: May 3, 2021

Respectfully submitted,

GLAST, PHILLIPS & MURRAY, P.C.

By: /s/ Matthew E. Furse

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Counsel for Respondent,

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CERTIFICATE OF SERVICE

In accordance with Rules of Practice 150 and 151, 17 C.F.R. §§ 201.150 & 151, I certify that a copy of *Respondent's Answer* was served on May 3, 2021 electronically by the eFAP system upon all parties receiving such notice in this Administrative Proceeding with a further copy to apfilings@SEC.gov.

By: /s/ Matthew E. Furse
MATTHEW E. FURSE
Counsel for Respondent