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Report on

2016 Inspection of Thayer O'Neal Company, LLC
(Headquartered in Sugar Land, Texas)

Issued by the

Public Company Accounting Oversight Board

September 28, 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**



2016 INSPECTION OF THAYER O'NEAL COMPANY, LLC

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Thayer O'Neal Company, LLC ("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.

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization became effective as of December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

PROFILE OF THE FIRM¹

Offices	1 (Sugar Land, Texas)
Ownership structure	Limited liability company
Partners / professional staff ²	2 / 8
Issuer audit clients	13
Lead partners on issuer audit work ³	1
Other names used in audit reports	ThayerONeal and Thayer O'Neal Company, PLLC

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 No. 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 14, 2016 to November 18, 2016.⁴

A. Review of Audit Engagements

The inspection procedures included review of portions of two 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

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.

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 failure to perform sufficient procedures to test contract revenue (AS 2301.11 and .13; AS 2810.30; and AS 1105.10);
- (2) the failure to perform sufficient procedures to test the existence and valuation of accounts receivable (AS 1105.10; and AS 2301.11 and .13); and

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.

(3) the failure to perform sufficient procedures to test the valuation of stockholders' deficit (AS 2301.08).

A.2. Issuer B

the failure to perform sufficient procedures to test the occurrence of revenue (AS 2301.13).

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.

PCAOB Auditing Standards	Issuers
AS 1105, <i>Audit Evidence</i>	A
AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	A and B
AS 2810, <i>Evaluating Audit Results</i>	A

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,⁶ as well as a 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,

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 Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

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.⁷

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.

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 professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

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.⁸ 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 nature, significance, and frequency of deficiencies;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

⁸ 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.

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.

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

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

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 –

* * * *

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*. 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 A.1.a., A.1.b., and A.2. in Part II.A. [Issuers A and B] In addition, in one audit, the Firm assigned an engagement quality reviewer who appears not to have possessed the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the engagement under review. [Issuer B] Moreover, in that

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 * * * * [have been] 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.

same audit, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm waited to issue the audit report until after the engagement quality reviewer had provided concurring approval of issuance. [Issuer B]

Independence

A firm should have policies and procedures that provide the firm with reasonable assurance that the firm and its personnel will maintain independence from the issuer audit clients (QC 20.04, .09 and .10). The inspection results indicate that the Firm's system of quality control may not provide the necessary assurance with respect to maintaining independence. * * * * [T]he inspection team reported that, in the engagement reviewed, the Firm appeared not to have satisfied certain applicable independence criteria.

* * * *

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.¹¹

¹¹ 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.



THAYERONEAL

CERTIFIED PUBLIC ACCOUNTANTS

Trust • Reliability • Consistency

May 22, 2017

Ms. Helen A. Munter
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Ms. Munter:

We are in receipt of the draft inspection report (the report) of the Public Company Accounting Oversight Board (PCAOB) with respect to its inspection of Thayer O'Neal Company, LLC (ThayerOneal) in November 2016 pursuant to section 104 of the Sarbanes-Oxley Act of 2002. Our responses are noted in the same order and with the same references as your comments.

A. Insufficiently Supported Audit Opinions

A.1 Issuer A

A.1.a

The report indicates that we failed to perform sufficient procedures to test contract revenue.

We disagree with this comment.

We performed procedures which were not detailed in the inspection report which we believe document that we did perform sufficient procedures to test contract revenue.

In addition to those substantive procedures noted in the inspection report we also performed the following procedures:

- 1) We performed an analysis for 100% of contracts performed for the period under audit of contract revenue, billings, amounts received under contracts, accounts receivable based on billed amounts and accounts receivable based on earned amounts as well as contract costs to determine if accounts receivable, work in progress and revenue on contracts was properly stated. We created this analysis directly from the client's general ledger. Additionally, we did the following:
 - A. We reviewed contracts which comprised 75% of the issuer's revenue for the period under audit and compared the terms of those contracts and agreed the billing to the contract to determine that there was an agreement with the customer to provide the service;
 - B. We agreed the terms of the contracts to the analysis to determine if the proper amount of revenue has been recognized for the period and whether there were any billings in excess of

Response to PCAOB Inspection Report
May 22, 2017

costs and estimated earnings or costs and estimated earnings in excess of billing on contracts in progress.

C. Through this process, we determined the following:

- a. A contractual relationship with the customers had been formally established;
- b. Prices had been agreed to as the contracts established the total contract price as well as payment milestones;
- c. Services had been rendered based upon our review of contracts costs;
- d. Payments has been made based upon agreed upon milestones;
- e. Because we scheduled billings from the general ledger for all contracts in progress at period end, this process essentially provided a revenue cut off test.

Our conclusion from the procedures we performed was that the issuer did not actually use the percentage of completion method of accounting as it made no effort to estimate total contract costs and therefore could not measure percentage completion using the cost to cost method. The issuer uses the accrual method of accounting for revenue from contracts based on milestones set out in the contracts.

Our assessment of the contract accounting method used by the issuer concluded that revenue, accounts receivable based on billed amounts and accounts receivable based on earned amounts, reflected in the financial statements as costs and estimated earnings in excess of billings, as summarized in our analysis were reasonable and did not differ significantly from amounts as presented in the financial statements.

2) We performed an analysis of revenue by customer for all transaction for both the year under audit and the prior year and did the following procedures

A. Evaluated revenue for sales concentrations;

B. Performed an analytical review comparing current revenue to prior year revenue.

Accordingly, we disagree with this comment and respectfully request that it be eliminated from the inspection report or modified in such a way that it addresses the issue as a documentation deficiency as opposed to a substantive audit deficiency.

A.1.b

The PCAOB inspection report indicates that we failed to test the existence and valuation of accounts receivable. Additionally, the report indicates that our procedures were limited to confirmation of the total contracted amounts for projects and that we did not reconcile the amounts confirmed to the amounts reflected on the issuers financial statements.

We disagree with this comment.

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We analyzed revenue under contracts, accounts receivable based on billed amounts and accounts receivable based on earned amounts, presented in the financial statements as costs and estimated earnings in excess of billings, for 100% of contracts performed during the period under audit.

We confirmed the amounts on the clients schedule of billed amounts and unearned amounts for contracts totaling 77% of the total. The confirmations came back with no exceptions. Additionally, we recalculated accounts receivable based on billed amounts as well as accounts receivable based on earned amounts, presented in the financial statements as costs and estimated earnings in excess of billings. The returned confirmations reflected no exceptions. Accordingly, we considered accounts receivable based on earned amounts, presented in the financial statements as costs and estimated earnings in excess of billings, that were confirmed to be 96% of the total.

Accordingly, we disagree with this comment and respectfully request that it be eliminated from the inspection report or modified in such a way that it addresses the issue as a documentation deficiency as opposed to a substantive audit deficiency.

A.1.c.

The PCAOB commented that we failed to perform sufficient procedures to test the valuation of stockholder's deficit. Specifically, we did not test cash proceeds received for the shares of common stock issued for cash.

We disagree with this comment.

The workpapers reflect a complete detail of all amounts deposited from the proceeds of the issuance of common stock, expenses deducted from the share issuance and the net amounts deposited. Likewise, this workpaper reflects certain deposits on this list highlighted in green. The green highlights represent amounts agreed to the bank statements. The auditor failed to document the meaning of the highlighted amounts. The auditor did sign off the portion of the audit program that indicated amounts were vouched to bank statements. Accordingly, audit documentation does exist that this step was performed.

The auditor kept copies of the client's bank statements on our file server and a quick review of these statements shows that the deposited amounts per the detailed schedule are easily traced into the bank statement for a period (three months) that represents 35% of total amounts deposited from the proceeds of common stock. This sample alone provides sufficient evidence that the amount of contributed capital was vouched to bank statements and provides evidence that we did perform this audit procedure and determined that contributed capital was reasonably stated for the period under audit.

We believe this is simply a documentation deficiency. Accordingly, we disagree with this comment and respectfully request that it be eliminated from the inspection report or modified in such a way that it addresses the issue as a documentation deficiency as opposed to a substantive audit deficiency.

A.2 Issuer B

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May 22, 2017

A.2.a. Occurrence of revenue

The PCAOB commented that ThayerONeal failed to perform sufficient procedures to test the occurrence of revenue and specifically that we failed to evaluate whether it was appropriate to recognize the licensing revenue during the year under audit.

We disagree with this comment.

* * * * REDACTED. Comments on Non-public Aspects of Report

In connection with our audit of this revenue, which consisted of one journal entry to recognize the revenue which had previously been deferred in accordance with the accounting method adopted four years earlier, we performed the following procedures:

- We reviewed the original agreement;
- We discussed the accounting treatment with the issuer as well as its prior auditors and agreed with both of their assessments relative to the accounting for the revenue under this agreement;
- We inquired of management as to any continuing performance obligation on the part of Issuer B with respect to this customer. Based upon the fact that Customer prematurely terminated the

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agreement and we saw no evidence of ongoing performance obligations and we agreed with Issuers recognition of this revenue.

Our documentation of these procedures was included in our review workpapers for the third quarter of 2015, our initial engagement, a fact we pointed out to the PCAOB staff handling this inspection. Those consisted of:

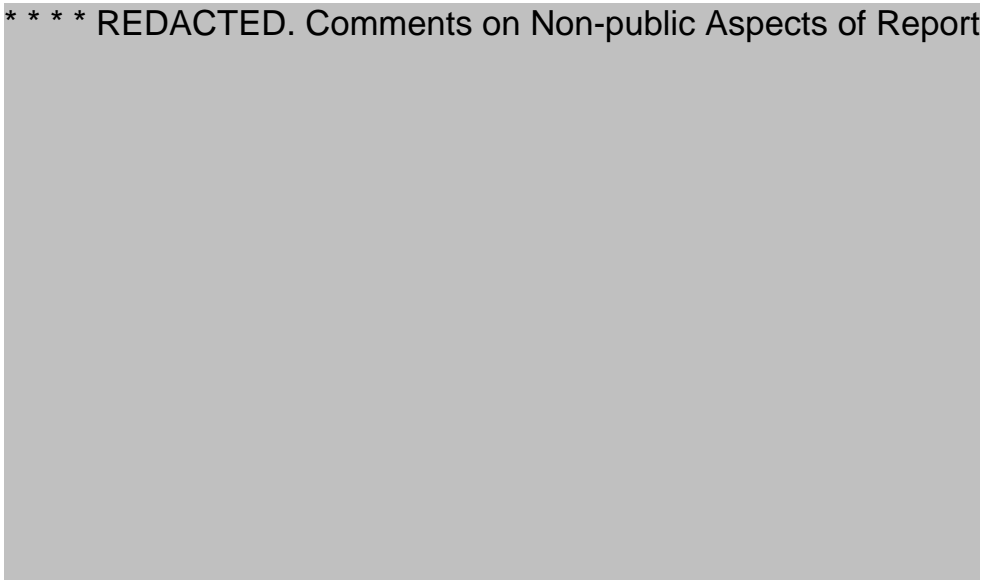
- A. A copy of the agreement with the Customer;
- B. Documentation of our review of the predecessor auditor's workpapers;
- C. Confirmation of management's representations in both the third quarter review and the audit.

The only additional procedure possible would have been to confirm the lack of any ongoing performance obligation with the customer. In our judgement, this procedure was not necessary under the circumstances.

Accordingly, we disagree with this comment and respectfully request that it be eliminated from the inspection report.


B. Issues Related to Quality Controls

* * * * REDACTED. Comments on Non-public Aspects of Report



Response to PCAOB Inspection Report
May 22, 2017

* * * * REDACTED. Comments on Non-public Aspects of Report



B.1.d. Engagement Quality Review

The PCAOB made three comments in this area:

Response to PCAOB Inspection Report
May 22, 2017

- Questions exist about the effectiveness of the Firm's system of quality control because, in the opinion of the reviewer, deficiencies exist and since they were not detected, the quality control system is *per se* ineffective.

We disagree with this comment for the reasons noted above with respect to each comment made by the inspection team. Accordingly, we respectfully request that it be eliminated from the inspection report or modified in such a way that it addresses the issue as a documentation deficiency as opposed to a substantive audit deficiency.

- In the audit of Issuer B, the Firm assigned a quality reviewer who appears not to have possessed the level of knowledge and competence related to accounting, auditing and financial reporting required to serve as engagement partner on the engagement under review.

We disagree with this comment.

Our engagement quality reviewer mentioned in the email which provides documentation that his review was performed and was performed prior to the release of our audit opinion, that he could not comment on the format of the disclosures as he had limited experience with international financial reporting standards.

We believe he was qualified based upon the following facts:

1. The financial statements of issuer B contained no significant differences between IFRS and US generally accepted accounting standards and therefore his lack of expertise in this regard made no practical difference;
2. The audit documentation included a memo summarizing the differences between IFRS and GAAP which our quality reviewer had access to on review of this audit documentation.

We discussed both issues with the ERQ partner prior to the issuance of our opinion, a fact that he will corroborate if required. In this discussion, he verbally agreed with our assessment of these two issues. We believe this issue should have not have risen to the level of a comment in this inspection report and respectfully request that it be eliminated.

- In the audit of Issuer B there was no evidence in the audit documentation, and no persuasive other evidence that the firm waited to issue the audit report until after the engagement quality reviewer had provided concurring approval of issuance.

We disagree with this comment.

The Firm always waits until we have concurring approval of issuance from the engagement quality reviewer. The quality review partner indicated that his review was complete prior to issuance of the audit opinion.

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The engagement quality reviewer had signed off within the audit documentation within 45 days of the issuance of the audit opinion' but always signs off as of the date he signs the documentation. However, we provided the PCAOB staff involved with this inspection with an email evidencing our EQR partner's review which was dated prior to the issuance of our opinion.

We feel that this issue should have no risen to the level of a comment in this inspection report and respectfully request that it be eliminated.

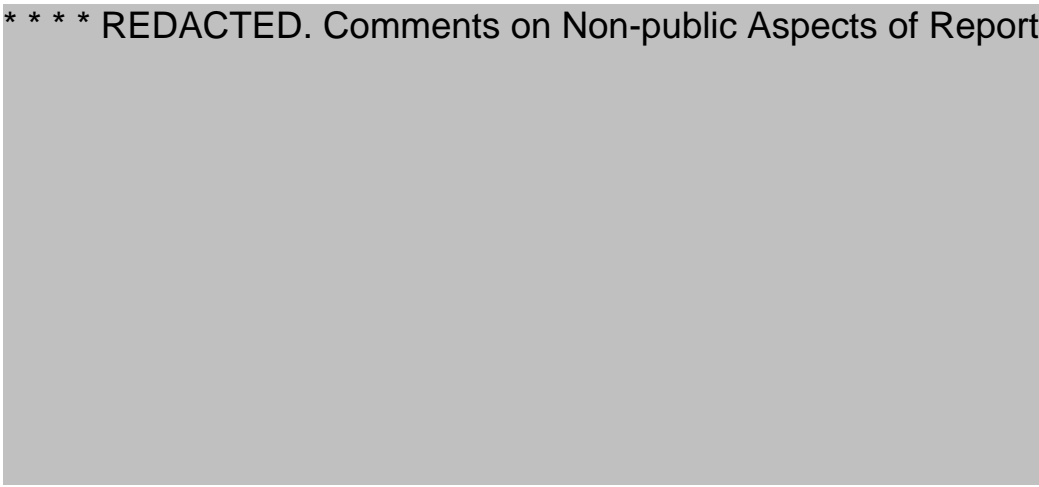
B.2. Independence

* * * REDACTED. Comments on Non-public Aspects of Report



Response to PCAOB Inspection Report
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* * * * REDACTED. Comments on Non-public Aspects of Report



This concludes our response pursuant to section 104(f) of the Act, 15 U.S.C. Section 7214(f), and PCAOB Rule 4007(a) of the draft inspection report issued by the PCAOB resulting from their inspection of our Firm in November of 2016.

Respectfully,

/s/ Thayer O'Neal Company, LLC

Thayer O'Neal Company, LLC

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>.

AS 1105, <i>Audit Evidence</i>		
SUFFICIENT APPROPRIATE AUDIT EVIDENCE		
Using Information Produced by the Company		
AS 1105.10	<p>When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:³</p> <ul style="list-style-type: none"> • Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and • Evaluate whether the information is sufficiently precise and detailed for purposes of the audit. 	Issuer A
<p><u>Footnote to AS 1105.10</u></p> <p>³ When using the work of a specialist engaged or employed by management, <u>see</u> AS 1210, <i>Using the Work of a Specialist</i>. When using information produced by a service organization or a service auditor's report as audit evidence, <u>see</u> AS 2601, <i>Consideration of an Entity's Use of a Service Organization</i>, and for integrated audits, <u>see</u> AS 2201, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>.</p>		

AS 2301, The Auditor's Responses to the Risks of Material Misstatement		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
AS 2301.08	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuer A
Responses to Significant Risks		
AS 2301.11	<p>For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.</p> <p>Note: AS 2110 discusses identification of significant risks¹⁰ and states that fraud risks are significant risks.</p>	Issuer A
<p><u>Footnote to AS 2301.11</u></p> <p>¹⁰ See AS 2110.71 for factors that the auditor should evaluate in determining which risks are significant risks.</p>		
Responses to Fraud Risks		
AS 2301.13	<p><i>Addressing Fraud Risks in the Audit of Financial Statements.</i> 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.</p>	Issuers A and B

AS 2810, Evaluating Audit Results		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS 2810.30	<p>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</p> <p>Note: AS 2815, <i>The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"</i> establishes requirements for evaluating the presentation of the financial statements. AS 2820, <i>Evaluating Consistency of Financial Statements</i>, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</p> <p>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.</p>	Issuer A