2020 Inspection Heaton & Company, PLLC

(Headquartered in Farmington, Utah)

March 24, 2022

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

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. 104-2022-097

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2020 INSPECTION

In the 2020 inspection of Heaton & Company, PLLC, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review six audits of issuers with fiscal years generally ending in 2019. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2020 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2020	2018
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	63	58
Total engagement partners on issuer audit work[1]	2	3
Audits reviewed		
Total audits reviewed[2]	6	6
Audits in which the firm was the principal auditor	6	6
Audits with Part I.A deficiencies	5	3

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on internal control over financial reporting (ICFR), or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current

[1] The number of engagement 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) during the twelve-month period preceding the outset of the inspection.

[2] The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Our 2020 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct misstatements and the firm revised and reissued its report on the financial statements.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2020 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2020		2018	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	6	**Revenue and related accounts**	4
Cash and cash equivalents	2	**Equity and equity-related transactions**	3
Debt	1	**Debt**	3
Equity and equity-related transactions	1	**Derivatives**	2
Business combinations	1	**Long-lived assets**	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Communication Services

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**.

Description of the deficiencies identified

The firm did not perform any substantive procedures to test certain revenue. (AS 2301.08)

The firm identified a fraud risk related to revenue. The firm did not perform tests of details over certain other revenue in response to the fraud risk. (AS 2301.13)

Unrelated to our review, the issuer reevaluated its accounting for certain revenue and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements and the firm revised and reissued its report on the financial statements.

Issuer B

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to a **Business Combination**.

Description of the deficiencies identified

During the year, the issuer acquired a controlling interest of a business. The firm did not identify and appropriately address the issuer's omission of disclosures required under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31) In addition, the firm did not perform sufficient procedures to test whether the issuer's accounting of the business combination was in conformity with FASB ASC Topic 805, because the firm did not evaluate whether the issuer (1) appropriately recorded the acquisition consideration, (2) identified and appropriately recorded all assets acquired, liabilities assumed, and non-controlling interests, and (3) measured them at their respective acquisition-date fair values. (AS 2810.30)

Issuer C – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Equity and Equity-Related Transactions**.

Description of the deficiencies identified

During the year, the issuer issued shares of common stock in exchange for services rendered. The firm did not test the fair value of the shares issued. (AS 2502.15)

During the year, the issuer also issued stock options for services rendered and determined their fair value using both data and assumptions. The firm did not perform any substantive procedures to test, or in the alternative, test controls over, the accuracy and completeness of this data and evaluate the reasonableness of these assumptions. (AS 2502.26, .28, and .39) In addition, the firm did not evaluate whether the fair value was properly determined from such data and assumptions. (AS 2502.39)

Audits with a Single Deficiency

Issuer D

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

The firm did not perform any substantive procedures to evaluate whether the performance obligations were satisfied before revenue was recognized. (AS 2301.08)

Issuer E

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

Description of the deficiency identified

The firm did not perform any substantive procedures to evaluate whether the performance obligation(s) was satisfied before certain revenue was recognized. (AS 2301.08)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of six audits reviewed, the firm did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation.*

- In one of six audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the engagement quality reviewer, including evidence that the engagement quality reviewer evaluated the engagement team's responses to the significant risks identified. In this instance, the documentation of the engagement quality review was non-compliant with AS 1220, *Engagement Quality Review*.

- In one of six audits reviewed, the firm did not make certain required communications to the issuer's audit committee equivalent related to (1) the firm's evaluation of the issuer's ability to continue as a going concern and (2) the firm's evaluation of the quality of the issuer's financial reporting. In addition, in one of six audits reviewed, the firm did not communicate to the issuer's audit committee equivalent the results of the audit prior to the issuance of the auditor's report. In these instances, the firm was non-complaint with AS 1301, *Communications with Audit Committees*.

- In one of six audits reviewed, the firm did not make any of the required communications to the issuer's audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees,* and AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements.*

- In two of six audits reviewed, the firm did not provide to the audit committee, or equivalent, the required communications in writing of all material weaknesses identified during the audit. In these instances, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements.*

- In one of six audits reviewed, the firm's audit report did not include a statement indicating that the financial statements included the related notes. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

- In two of six audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants.*

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE 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, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

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. 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.

Heaton & Company, PLLC
Certified Public Accountants
dba Pinnacle Accountancy Group of Utah

December 23, 2021

George Botic, Director
Division of Registration and Inspections
PCAOB
1666 K St., N.W.
Washington, DC 20006

Dear Mr. Botic:

We are pleased to submit this response to the Draft Report on the 2020 Inspection of Heaton & Company, PLLC.

We believe that the PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We have evaluated the matters identified by the Board's inspection team described in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities.

The Firm takes its commitment to audit quality and continuous self-improvement very seriously. We are confident that the enhancements we have made and are continuing to make to our audit processes, policies, and quality controls are resulting in significant improvements to our audit quality.

Sincerely,

Heaton & Company, PLLC

Heaton & Company, PLLC

Farmington, Utah