

**Inspection of  
Brown, Armstrong, Paulden,  
McCown, Hill, Starbuck & Keeter  
Accountancy Corporation**

Issued by the

**Public Company Accounting Oversight Board**

October 26, 2006

**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**



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

**INSPECTION OF BROWN, ARMSTRONG, PAULDEN, McCOWN, HILL, STARBUCK  
& KEETER ACCOUNTANCY CORPORATION**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Brown, Armstrong, Paulden, McCown, Hill, Starbuck & Keeter Accountancy Corporation ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, 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.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> The Board does not make public any of a firm's comments that address a nonpublic portion of the report. 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 notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## PART I

### INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from June 6, 2005 to June 9, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	2 (Bakersfield and Shafter, California)
Ownership structure	Corporation
Number of partners	7
Number of professional staff <sup>3/</sup>	40
Number of issuer audit clients <sup>4/</sup>	2

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. 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 or are "associated persons" (as defined in the Act) of the Firm.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.<sup>5/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of the performance of both of the Firm's audits of the financial statements of issuers. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.<sup>6/</sup> The deficiencies identified in both of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies included –

- (1) the failure to perform and document tests of an issuer's electronic data processing general and application controls in a complex environment;

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<sup>5/</sup> 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 GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>6/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

- (2) the failure to perform and document an evaluation an issuer's accounting for delay rental costs related to petroleum exploration; and
- (3) the failure to perform and document an evaluation of an issuer's accounting for an investment in a related entity.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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PARTS II AND III OF THIS REPORT ARE NONPUBLIC  
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

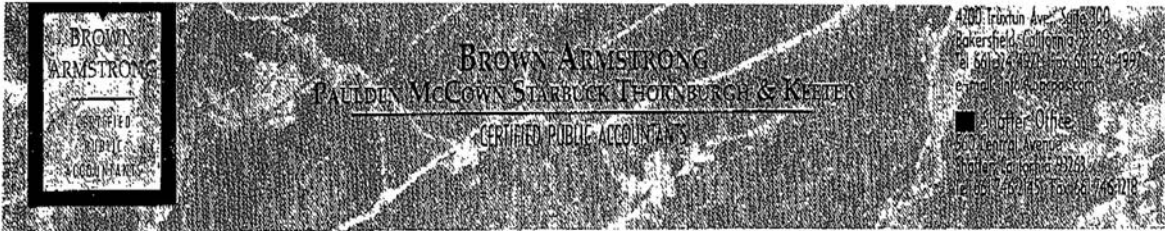
## **PART IV**

### **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 Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act 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 of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final 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. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.



Andrew J. Paulden, CPA  
 Peter C. Brown, CPA  
 Burton H. Armstrong, CPA, MST  
 Harvey J. McCown, MBA, CPA  
 Steven R. Starbuck, CPA  
 Aileen K. Keeter, CPA  
 Chris M. Thornburgh, CPA  
 Eric H. Xin, MBA, CPA  
 Lynn R. Krauss, CPA, MST  
 Bradley M. Hankins, CPA  
 Rosalva Flores, CPA  
 Connie M. Perez, CPA  
 M. Sharon Jones, CPA, MST  
 Diana H. Branthoover, CPA  
 Matthew R. Gilligan, CPA  
 Michael C. Olivares, CPA  
 Hanna J. Sheppard, CPA  
 Ryan S. Johnson, CPA

July 31, 2006

Mr. George Diacont  
 Director  
 Division of Registration and Inspection  
 Public Company Accounting Oversight Board  
 1666 K Street, N.W.  
 Washington, D.C. 20006

RE: Inspection of Brown Armstrong Paulden  
 McCown Starbuck Thornburgh & Keeter  
 Accountancy Corporation ("Brown Armstrong")

Dear Mr. Diacont:

We appreciate the opportunity to respond to the Board's Draft Report of Inspection (the "Report") dated June 29, 2006 in accordance with the Sarbanes Oxley Act of 2002. We recognize the importance of the inspection process in restoring the public's trust in the independent audit process.

Brown Armstrong supports the mission of PCAOB and believes the inspection process is a vital part of protecting the public interest. We found the inspection process to be educational and the inspection team to be very professional. The process will assist us in our continual efforts to improve our audit quality. We have taken, or will be taking steps to address the matters in the Board's Report.

We respect the PCAOB's inspection process and understand that judgments are involved; judgments that may vary from auditor to auditor and between our Firm and members of the inspection team. During the inspection process, we made every effort to cooperate with the inspection team members by responding to questions and providing additional documentation as necessary.

While we generally agree with the summary descriptions of the findings, we would characterize the comments noted by the Board to be, in most cases, areas where our documentation could have been better summarized or areas where our working papers lacked clarity rather than performance "failure" or deficiencies. The concerns raised represent matters where documentation of auditing procedures or results of procedures could be improved.

Mr. George Diacont  
Public Company Accounting Oversight Board  
July 31, 2006  
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In the cases where we agree that the documentation clarity could be improved, we have undertaken steps to incorporate additional documentation into our workpapers in accordance with AU 390, Consideration of Omitted Procedures After Report Date and in accordance with SAS No. 103, Audit Documentation. In all cases, however, we do not anticipate that such additional documentation will lead to any changes in our clients' audited financial statements or our reports thereon and that our present ability to support our previously expressed opinions has not been impaired.

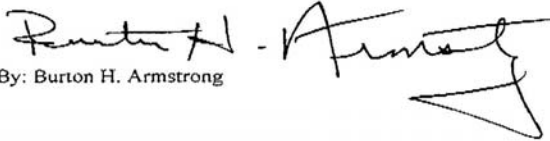
As we do place a high value on the inspection process and strive to maintain an audit practice of superior quality and excellence, we have also conducted internal training sessions with our audit staff to address the specific and general findings of the inspection team and have implemented a number of changes in our documentation processes.

We want to reiterate the seriousness with which we view the inspection comments. We are constantly seeking to improve the quality of our audit processes in line with professional and governmental standards.

We appreciate the opportunity to respond to the Report and look forward to working with the PCAOB on matters of interest to our public company audit practice.

Sincerely,

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

  
By: Burton H. Armstrong

BHA:ehx:jmd

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