

**Inspection of
K.R. Margetson Ltd.**
(Headquartered in Sechelt, Canada)

Issued by the
Public Company Accounting Oversight Board
April 29, 2011

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 financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure 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 whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

INSPECTION OF K.R. MARGETSON LTD.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm K.R. Margetson Ltd. ("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.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} 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.

^{1/} 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 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.

^{2/} 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 primary procedures for the inspection from January 25, 2010 to January 29, 2010.^{3/} These procedures were 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 (North Vancouver and Sechelt, Canada)
Ownership structure	Corporation
Number of partners	1
Number of professional staff ^{4/}	3
Number of issuer audit clients ^{5/}	10

^{3/} The Board's inspection was conducted in cooperation with the Canadian Public Accountability Board.

^{4/} "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.

^{5/} 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. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} 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 fairly the financial position, results of operations, or cash flows of the issuer in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").^{7/} 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 inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

^{6/} This focus 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.

^{7/} 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 or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in one 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.^{9/} Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning a non-cash transaction which had been inappropriately included in the statement of cash flows;
- (2) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning a related party transaction that had not been disclosed; and

^{8/} 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.

^{9/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), 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. *See* AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

(3) the failure to perform sufficient audit procedures to test equity transactions.

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

PART II

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B. Issues Related to Quality Controls * * * *

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.^{10/} On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

1. 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 * * * * –

Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

2. Independence

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with independence requirements. As described in Part II.C

^{10/} A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

below, the inspection team reported information indicating that the Firm may not have been independent of an issuer audit client within the meaning of the Commission's independence requirements. [Issuer B]

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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/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

K. R. MARGETSON LTD.*

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North Vancouver office

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*Denotes an incorporated professional

December 16, 2010

Mr. George H. Diacont

PCAOB, Division of Registration and Inspection

1666 K Street, NW

Washington DC 20006

Dear Sir:

Please see below my responses to the draft report of inspection on K. R. Margetson Ltd. regarding design of quality control system.

Redacted. Confidential Treatment Request Granted by the Board
Pursuant to PCAOB Rule 4007(b)

K. R. MARGETSON LTD.*

Chartered Accountant

* denotes an incorporated professional

**Redacted. Confidential Treatment Request Granted by the Board
Pursuant to PCAOB Rule 4007(b)**

2. Technical Competence, Due Care and Professional Scepticism

All audits are prepared using Thomson Reuters PPC's Practice Aids for PCOAB audits which includes checklists, programs and confirmation and correspondence templates. All the required PCAOB checklists and programs are used on every audit, in every audit area. I get updates to the program twice yearly.

All audits were/are subject to a second quality review by another PCAOB registered auditor.

The audit files are prepared electronically using CaseWare to index and reference working papers. All working papers are numbered and, by using the features of CaseWare, all are signed off with the sign-off date noted.

Without more specific details, there is not much more to report, other than to say that I take audit procedures very seriously and frankly, don't agree that the Firm is deficient in this area. I also note that the deficiencies noted in Part A did not involve any technical issues which would indicate the firm was technically deficient. I further note that the issues raised by the PCAOB staff on earlier correspondence dealing with potential technical errors have not been included in this report. I can only assume that my understanding of the issues was correct and that perhaps this criticism is left over from the impression surrounding those issues and accordingly, is no longer warranted.

I look forward to any suggestions you may have of a specific nature to address this issue.

REDACTED. Comments on Non-public Aspects of Report

K. R. MARGETSON LTD.*

Chartered Accountant

* denotes an incorporated professional

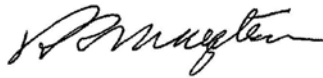
REDACTED. Comments on Non-public Aspects of Report

Overall, I believe the fact that I am a sole practitioner lessens some of the requirement to have specific rules included in the Quality Control Manual as one of the main purposes in such a manual is to ensure that everyone is aware of those procedures. I have had my QCM reviewed on three occasions by ICABC staff and it has always been acceptable. Furthermore, I have had occasion to improve it since it was last reviewed by PCAPB staff, as Canada has undergone a transition to new Canadian auditing standards, which now align it with international GAAS standards. Should you require further inclusions in order to specifically comply with US GAAS, I would be happy to comply.

As for the actual procedures that the firm undertakes to ensure independence, it should be noted that all checklists regarding independence are included in the working paper files and appropriate independence rules are part of the Firm's QCM. Furthermore, when employing subcontractors it is a requirement that they confirm their independence by completing a specific questionnaire. For example, the PCAOB audit staff reviewed a four page questionnaire completed by the contractor when reviewing Issuer A. Finally, the comment that the Firm system of quality control does not appear to provide sufficient assurance that the Firm will comply with independence requirements stems from the specific incidents discussed above, rather than documentation not being in evidence. The incidents do not suggest a lack of procedures or a disregard of those procedures. Rather, they indicate a difference of opinion as to what constitutes 'preparing' client financial statements.

In the final analysis I appreciate that my opinion doesn't matter, and I look forward to your response.

Yours truly,



Keith Margetson, CA, CPA (Illinois)