



1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Report on

**2010 Inspection of R.R. Hawkins & Associates,
International A Professional Corporation
(Headquartered in Los Angeles, California)**

Issued by the

Public Company Accounting Oversight Board

August 2, 2012

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 U.S. Generally Accepted Accounting Principles ("GAAP") or 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 related GAAP 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 an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or 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.

**2010 INSPECTION OF R.R. HAWKINS & ASSOCIATES,
INTERNATIONAL A PROFESSIONAL CORPORATION**

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm R.R. Hawkins & Associates, International A Professional Corporation^{1/} ("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.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} 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 Firm has issued audit reports under the names of R.R. Hawkins and Associates International, a PSC, and R.R. Hawkins & Associates International, PSC.

^{2/} 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.

^{3/} 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 August 30, 2010 to September 3, 2010, from December 7, 2010 to December 10, 2010, and on December 27, 2010. 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	1 (Los Angeles, California)
Ownership structure	Corporation
Number of partners	1
Number of professional staff ^{4/}	1
Number of issuer audit clients ^{5/}	12

^{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 and internal control over financial reporting ("ICFR") 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 GAAP.^{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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.^{8/} Depending upon the circumstances, compliance with these standards may

^{6/} This focus on weaknesses and deficiencies 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, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{8/} 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), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* ("AS No. 5"), ¶ 98.

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 previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer and the financial statements of another company that were incorporated into a registration statement filed with the SEC by an issuer. 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.

The inspection team identified what it considered to be audit deficiencies. Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP, including, in some cases, errors that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

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 and 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.

The deficiencies identified in both of the audits reviewed included deficiencies 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 competent evidential matter to support its opinion on the issuer's financial statements. 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 the accounting for the issuance of shares of common stock and common stock warrants;
- (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 the accounting for convertible debt and warrants;
- (3) 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 the accounting for share-based payments to officers;
- (4) 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 the balance sheet presentation of certain liabilities;
- (5) the failure, in both audits, to perform sufficient procedures to test equity transactions;
- (6) the failure to perform sufficient procedures to test related-party transactions;
- (7) the failure to perform sufficient procedures to test the valuation of a liability;
- (8) the failure to perform sufficient procedures related to the extinguishment of accounts payable and accrued expenses; and
- (9) the failure to perform sufficient procedures to test share-based payments to non-employees.

One of the deficiencies described above related to auditing an aspect of the financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.^{9/}

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

^{9/} The Board inspection process did not include review of any additional audit work related to the restatement.



PCAOB Release No. 104-2012-225A
Inspection of R.R. Hawkins & Associates,
International A Professional Corporation
August 2, 2012
Page 7

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. 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. Design of Quality Control System

a. Practice Monitoring

The Firm's policies and procedures appear not to provide sufficient assurance that the Firm is effectively monitoring its accounting and auditing practice. Specifically, the Firm has not conducted a post-issuance review of selected engagements, which is required by its quality control policies and procedures.

b. Audit Documentation

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with the audit documentation and retention rules set forth in AS No. 3, in that the Firm's policies and procedures do not address the requirement that a complete and final set of audit documentation be assembled for retention not more than 45 days after the report release date.

^{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.

2. 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 * * * * –

a. Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

(i) Common Stock and Common Stock Warrants

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for the issuance of shares of common stock and common stock warrants. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of issuances of shares of common stock and common stock warrants. [Issuer A]

(ii) Convertible Debt and Warrants

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the presentation of convertible debt and warrants. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of convertible debts and warrants. [Issuer A]

(iii) Share-Based Payments to Officers

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the accounting for share-based payments to officers. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of share-based payments to officers. [Company B]

(iv) Balance Sheet Presentation

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, departures from GAAP that related to potentially material misstatements in the audited financial statements concerning the presentation of liabilities in the company's financial statements. In this audit, the inspection team also identified a significant deficiency related to the Firm's auditing of the valuation of liabilities. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of liabilities. [Company B]

(v) Equity Transactions

As discussed above, in both of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of equity transactions. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of equity transactions. [Issuer A and Company B]

(vi) Related Party Transactions

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of related party transactions. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of related party transactions. [Company B]

(vii) Extinguishment of Accounts Payable and Accrued Expenses

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of the extinguishment of accounts payable and accrued expenses. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of accounts payable and accrued expenses. [Company B]

(viii) Share-Based Payments to Non-Employees

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of share-based payments to non-employees. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of share-based payments to non-employees. [Company B]

b. Due Care, Professional Skepticism, and Supervision

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will exercise due care and professional skepticism when performing audits, and supervise audits performed by the Firm. Specifically, many of the Firm's audit programs were either not included in the audit documentation or included in the audit documentation without evidence to indicate whether the audit procedures had been performed. [Issuer A and Company B]

c. Auditor Communications

The Firm's system of quality control appears not to provide sufficient assurance that the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented. [Issuer A and Company B]

3. Integrity

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all professional responsibilities with integrity, which encompasses, among other things, honesty. As described in Part II.C. below, the inspection team reported information indicating that the Firm may have lacked integrity in its performance of certain professional responsibilities. [Company B]

4. Responding to Possible Illegal Acts

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with applicable requirements when the Firm becomes aware of information indicating a possible illegal act. As described in Part II.C. below, the inspection team reported information indicating that the Firm became aware of such information and appears not to have taken appropriate action. [Company B]

* * * *

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 did not provide a written response.