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**Inspection of  
Rosen Seymour Shapss Martin & Company, LLP**

**Issued by the**

**Public Company Accounting Oversight Board**

**February 3, 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**

PCAOB RELEASE NO. 104-2006-042

**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 ROSEN SEYMOUR SHAPSS MARTIN & COMPANY, LLP**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Rosen Seymour Shapss Martin & Company, LLP ("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 28, 2005 to June 30, 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	1 (New York, New York)
Ownership structure	Limited liability partnership
Number of partners	19
Number of professional staff <sup>3/</sup>	58
Number of issuer audit clients <sup>4/</sup>	1

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 fairly the financial position, results of operations, or cash flows of the issuer in

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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.

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 Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. 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 include a deficiency 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. That deficiency was the failure to perform and document sufficient audit procedures related to revenue.

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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.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, 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



PCAOB Release No. 104-2006-042  
Inspection of Rosen Seymour Shapss Martin  
& Company, LLP  
February 3, 2006  
Page 5

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.



**ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP**  
*Certified Public Accountants & Profitability Consultants*

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October 28, 2005

Mr. George H. Diacont, Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

Re: Public Company Accounting Oversight  
Board ("PCAOB" or the "Board") Draft  
Report of Inspection of Rosen Seymour  
Shapss Martin & Company LLP

Dear Mr. Diacont:

We thank the Board for the Draft Inspection Report, dated October 11, 2005, and for the opportunity to respond to the Board's findings and related comments concerning the sufficiency and documentation of our audit procedures and the policies and procedures underlying the firm's system of quality control. Accordingly, we submit the following response.

**AUDIT FINDING AND RESPONSE**

At the exit meeting held on June 30, 2005 with members of the PCAOB inspection team, the firm agreed with the inspection team's finding that the documentation of our tests of Issuer A's interest income was insufficient, in that there was no documentation of how many interest calculations were tested, which loans were tested, and the detail audit procedures we utilized. This finding led the inspection team to conclude that the firm should have performed and documented auditing procedures in addition to those described in the workpapers to support the firm's opinion.

In light of this finding, and pursuant to the guidance in AU 390, "Consideration of Omitted Procedures After the Report Date" (PCAOB Rule 3200T), the firm's engagement team promptly undertook to reperform and document the auditing procedures considered necessary at the time of the audit. The following auditing procedures, which were considered necessary at the time of the audit, were performed and documented in the audit work papers by the engagement team:

- A. The auditor identified, documented, and selected the specific loans tested for valuation of recorded income (which were the same 35 items selected and tested for validity by direct positive confirmation).
- B. For the loans selected, the auditor recalculated earned interest income for the appropriate period and traced interest transactions to monthly revenue records, and to the general ledger.

- C. For the loans selected, the auditor also performed analytical procedures comparing current monthly recorded income amounts to prior monthly amounts and to budgeted (or expected) amounts, and evaluated monthly ratios of interest income to loan portfolio balances.

The engagement team concluded that the firm's ability to support the previously expressed opinion regarding the financial statements of Issuer A was not impaired. The additional documentation was clearly identified as having been added after the 45-day period, along with the date added and the reason for the additional workpaper. The firm submitted a copy of this documentation to a member of the PCAOB's inspection team via e-mail on July 13, 2005 to eliminate the concerns that the firm's opinion may lack supporting evidence, and with the expectation that the additional information would be considered in drafting the Board's report on its inspection of how the firm conducts audits. Based on our review of the Board's draft inspection report, it does not appear that the Board considered the firm's actions.

The firm has also responded in three additional ways. First, in conducting the current audit of Issuer A for the year ended June 30, 2005, the firm identified the accounts tested and fully documented the procedures performed to obtain assurance that revenue reported by Issuer A was measured and presented accurately in the financial statements. Second, the firm has reminded all audit partners and professional personnel of the requirement for full and complete documentation of audit procedures. Finally, the requirement for full and complete documentation of audit procedures will be emphasized at all year-end engagement planning meetings within the firm.

Redacted  
Comments on Non-public Aspects of Report.

Our firm understands and appreciates the objective of the Board's inspections and assures the Board of its commitment to improving the quality and efficiency of its audits.

Respectfully submitted,



Haskell J. Seymour

HJS:wp

cc: Fred Shapss