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**Inspection of  
WithumSmith + Brown,  
A Professional Corporation**

**Issued by the  
Public Company Accounting Oversight Board  
February 2, 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. 104-2006-031

**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 WITHUMSMITH + BROWN,  
A PROFESSIONAL CORPORATION**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm WithumSmith + Brown, A Professional 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 September 20, 2004 to October 1, 2004 and from October 13, 2004 to October 15, 2004. 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	6 (Flemington, Livingston, New Brunswick, Princeton, Red Bank, and Toms River, New Jersey)
Ownership structure	Professional corporation
Number of partners	34
Number of professional staff <sup>3/</sup>	103
Number of issuer audit clients <sup>4/</sup>	12

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.

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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.

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.<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 nine of the Firm's audits of the financial statements of issuers. Those audits and 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 two 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 –

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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.

- (1) 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 deferred finance charges;
- (2) the failure to evaluate whether certain options for future services were forfeitable and should therefore have been treated as unissued; and
- (3) the failure to evaluate the accounting for, and reporting of, the conversion of certain promissory notes of the issuer into preferred shares in a subsidiary of the issuer.

Following the inspection fieldwork, one issuer restated its financial statements to address a matter identified by the inspection team.<sup>71</sup>

#### 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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<sup>71</sup> The Board inspection process did not include any review of any additional audit work or the restated financial statements.



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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.





WithumSmith+Brown  
A Professional Corporation  
Certified Public Accountants and Consultants

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Additional Offices in New Jersey  
and Pennsylvania

November 14, 2005

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

Dear Mr. Diacont:

We are pleased to respond to the Board's report on its 2004 inspection results of WithumSmith+Brown, P.C.

We fully support the mission of the Board and we welcome the Board's observations and comments. As a growing firm, we have always held the performance of high quality audits as a cornerstone to our practice and a significant contributor to our growth and success. We expect that the quality control improvements which we will implement, resulting from the Board's inspection, will further strengthen and improve the quality of our audit work.

The Board's comments and our responses to the specific observations contained in Part IA of your report are set forth below:

**PCAOB Comment:**

- (1) the 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 deferred finance charges

**WS+B Response:**

We discussed the matter with the issuer and determined that the issuer's initial accounting for its deferred finance charges was not correct. Consequently, the issuer filed a Form 8-K in November 2004 advising that the 2003 financial statements should not be relied upon. The financial statements of the issuer for 2003 were restated and filed on Form 10KSB/A in March 2005.

**PCAOB Comment:**

- (2) the failure to evaluate whether certain options for future services were forfeitable and should therefore have been treated as unissued

**WS+B Response:**

We discussed the Board's comment with the issuer. As a result of this discussion and after reviewing the consultant agreement again, the issuer affirmed and we concurred that their conclusion was correct. The issuer was unable to terminate the contract prior to the end of the initial twelve month term. Therefore, without a right to terminate the agreement, the consulting firm that received the options was entitled to them.



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Consequently, these options were non-forfeitable and, in our opinion, the issuer's original accounting for this transaction was appropriate in the circumstances.

**PCAOB Comment:**

- (3) the failure to evaluate the accounting for, and the reporting of, the conversion of certain promissory notes of the issuer into preferred shares in a subsidiary of the issuer

**WS+B Response:**

We have added documentation to support our audit work previously completed in connection with our audit of this transaction. The incremental documentation further supports our conclusion that the issuer's original accounting was appropriate in the circumstances.

We appreciate the opportunity to provide our response to you and we look forward to providing at a later date our response to your comments as described in Part IIB of the report.

Sincerely,

*Withum Smith + Brown, P.C.*

WithumSmith+Brown, P.C.