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Inspection of McCarney Greenwood LLP

Issued by the

Public Company Accounting Oversight Board

September 30, 2008

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. 104-2008-176

PCAOB
Public Company Accounting Oversight Board

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.

PCAOB
Public Company Accounting Oversight Board

INSPECTION OF MCCARNEY GREENWOOD LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm McCarney Greenwood 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.[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 fieldwork for the inspection from February 26, 2007 to March 2, 2007.[3/] 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 (Brampton and Toronto, Canada)
Ownership structure	Limited liability partnership
Number of partners	10
Number of professional staff[4/]	33
Number of issuer audit clients[5/]	3

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 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, 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.

The inspection team identified what it considered to be audit deficiencies.[8/] The deficiencies identified in both of the audits reviewed included deficiencies of such

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[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, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[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* 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) in two audits, reliance on the work of another auditor to test the disclosure of differences between Canadian GAAP and U.S. GAAP without performing procedures to determine whether it was appropriate to rely on that work; and

(2) the failure to perform sufficient procedures to test stockholders' 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. As described above, any defects in, or criticisms of, the Firm's quality

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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.

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

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 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.[10/]

[10/] 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.

McCarney Greenwood

August 6, 2008

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

Re: Response by McCarney Greenwood LLP to Part I of the Public Company Accounting Oversight Board's Draft Report of Inspection

We are pleased to take this opportunity to provide our written response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") draft report dated July 7, 2008 regarding the inspection of McCarney Greenwood LLP (the "Firm") conducted in February and March of 2007 pursuant to section 104 of the Sarbanes-Oxley Act of 2002.

The partners and professional staff of our Firm believe that the monitoring and inspection of public accounting firms by the PCAOB is an important function that enhances the quality of audit work performed by these firms. We, as a Firm, are committed to performing quality work on all our engagements and we are continually trying to improve our assurance methodology and auditing techniques. In that respect, we wish to cooperate fully with the PCAOB in their effort to promote and enforce quality audit work.

In Part I of their draft report the PCAOB noted two issues that they encountered during their review of our audit engagement files. These issues are as follows:

Issue 1

> *"in two audits, reliance on the work of another auditor to test the disclosure of differences between Canadian GAAP and U.S. GAAP without performing procedures to determine whether it was appropriate to rely on that work"*

Our Firm had relied on the work of another auditor (a CPA firm based in Rochester, New York) with regards to the U.S. GAAP reconciliation disclosures in the financial statement notes. We acknowledge that our audit file lacked sufficient documentation to indicate the appropriateness of our reliance on the audit procedures performed by this other auditor.

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Our Firm has had a long standing relationship with this CPA firm going back many years. We were aware of this CPA firm's good standing with the New York State Society of CPAs and knew that it was registered with the PCAOB. The audit partner at this CPA firm who performed the audit procedures on which we placed reliance was a member of the AICPA and the New York State Society of CPAs. We had considered these factors and we had checked the credentials of this audit partner and his firm before placing reliance on his work. Our deficiency was our failure to properly document these procedures in our audit files.

Even though we believe that we have performed enough work to provide us with the comfort we need to be able to place reliance on the work this other auditor, we agree with the principle that if the work has not been appropriately documented, it is as if it was not performed. Therefore, subsequent to being made aware of this deficiency by the PCAOB, we formalized our relationship with the CPA firm and our reliance on their work by way of an engagement letter and we documented their credentials.

We are now documenting all of the required procedures to be able to rely on the work of another auditor. In addition, we have had one of our audit managers (who has his CPA designation and has been managing many of our public company audit engagements) admitted to the partnership of our Firm at the start of 2008 and we have assigned to him the role of lead partner for the audits of each of these clients. Furthermore, we have hired an experienced CPA (who has worked for a CPA firm in Chicago for the past nine years) as part of our professional staff to work on these clients. We are now performing the audit work of the U.S. GAAP reconciliation disclosures ourselves since we have acquired the necessary in-house expertise. We have developed a U.S./Canada GAAP and GAAS differences checklist as guidance for our professional staff when working on these engagements. We still make use of the other CPA firm on the larger engagements as an extra level of review.

Issue 2

In one audit, *"the failure to perform sufficient procedures to test stockholders' equity transactions"*

Our audit file lacked adequate documentation on the work we performed to test the stockholders' equity transactions and as a result it appeared to the PCAOB inspectors that we failed to perform sufficient procedures in this area. We performed the required audit work but did not include proper and sufficient documentation of this work in the file. We acknowledge that this represents a deficiency under the PCAOB Auditing Standard No. 3 - *"Audit Documentation"*. We agree with the principle that if the work has not been appropriately documented, it is as if it was not performed.

We considered AU 390 - *"Consideration of Omitted Procedures after the Report Date"* and took immediate action to rectify the deficiency in our file's documentation. We re-performed the required audit procedures and documented the audit work in the file as it should have been done when the work was first

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performed. It is important to note that none of the re-performed audit procedures resulted in any differences in the amount and disclosures that were previously reported.

Also, in order to reinforce the importance of proper documentation of work performed, we held an internal training course for the professional staff working on public company audit engagements regarding the requirements of PCAOB Auditing Standard No.3. Our Firm has worked diligently, especially subsequent to the PCAOB inspection, to upgrade the documentation included in our audit files in an effort to ensure that there is sufficient evidence that all required audit work has been performed.

In conclusion, we wish to express to the PCAOB that we take the issues noted in the draft report of inspection very seriously and we have taken immediate action to address them by rectifying any deficiencies. Performing quality work is our Firm's priority and as such, we are continually working towards improving our audit methodology and techniques, our file documentation, and our quality control procedures. In that effort, we look forward to continuing to work with the PCAOB with regards to our U.S. registrant clients.

Yours very truly,

McCarney Greenwood LLP

David C. Greenwood – Managing Partner