

Report on
2008 Inspection of Moore & Associates, Chartered
(Headquartered in Las Vegas, Nevada)

Issued by the
Public Company Accounting Oversight Board

July 2, 2010

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**



Preface to Reports Concerning Annually Inspected Firms

The Sarbanes-Oxley Act of 2002 requires the Public Company Accounting Oversight Board ("PCAOB" or "the Board") to conduct an annual inspection of each registered public accounting firm that regularly provides audit reports for more than 100 issuers. The Board's report on any such inspection includes this preface to provide context for information in the public portion of the report.

A Board inspection includes, among other things, a review of selected audits of financial statements and of internal control over financial reporting. If the Board inspection team identifies deficiencies in those audits, it alerts the firm to the deficiencies during the inspection process. Deficiencies that exceed a certain significance threshold are also summarized in the public portion of the Board's inspection report. The Board encourages readers to bear in mind two points concerning those reported deficiencies.

First, inclusion 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, a firm must take appropriate action to assess the importance of the deficiency to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may 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.

Second, the Board cautions against drawing conclusions about the comparative merits of the annually inspected firms based on the number of reported deficiencies in any given year. The total number of audits reviewed is a small portion of the total audits performed by these firms, and the frequency of deficiencies identified does not necessarily represent the frequency of deficiencies throughout the firm's practice. Moreover, if the Board discovers a potential weakness during an inspection, the Board may revise its inspection plan to target additional audits that may be affected by that weakness, and this may increase the number of deficiencies reported for that firm in that year. Such weaknesses may emerge in varying degrees at different firms in different years.



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.



2008 INSPECTION OF MOORE & ASSOCIATES, CHARTERED

In 2008, the Board conducted an inspection of Moore & Associates, Chartered ("the Firm"). The Board is today 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, Appendix A, and portions of Appendix B. Appendix A provides an overview of the inspection process. Appendix B includes 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.

In the period since the inspection procedures were completed, the Board, through its disciplinary process, revoked the Firm's registration and barred the Firm's partner who supervised the Firm's issuer audits from being associated with a registered public accounting firm. The specific grounds for that disciplinary action are described in the Board's order in *In the Matter of Moore & Associates, Chartered, and Michael J. Moore, CPA*, PCAOB Release No. 105-2009-006 (August 27, 2009), available at <http://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.

^{1/} 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 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") performed an inspection of the Firm during September and November, 2008. The inspection team performed field work at the Firm's sole office in Las Vegas, Nevada. The Firm has two partners, one of whom supervised the audits of the Firm's issuer audit clients.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{3/} 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. Appendix A to this report provides a description of the steps the inspection team took with respect to the review of audits and the review of certain firm quality control processes.

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.^{4/} 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.

^{3/} 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.

^{4/} When the Board becomes aware 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.

A. Review of Audit Engagements

The scope of the inspection procedures performed included reviews of aspects of selected audits performed by the Firm. 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.

In reviewing the audits, the inspection team identified matters that it considered to be audit deficiencies.^{5/} Those deficiencies included failures by the Firm to identify or appropriately address errors in the issuer's application of GAAP. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, the conclusion that the Firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the 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.^{6/} 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.

When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the

^{5/} The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not in itself reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. As stated in footnote 1, however, in the period since the inspection procedures, the Board has revoked the Firm's registration on the basis of certain Board findings that the Firm violated provisions of law, Board rules, and Board standards. Those findings are described in the Board order cited in footnote 1.

^{6/} See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28.

deficiencies to the firm's present ability to support its previously expressed opinions,^{7/} and failure to take such actions could be a basis for Board disciplinary sanctions. In response to the inspection team's identification of deficiencies, the Firm, in some cases, performed additional procedures or supplemented its work papers, and in some instances, follow-up between the Firm and the issuer led to a change in the issuer's accounting or disclosure practices or led to representations related to prospective changes.^{8/}

In some cases, the deficiencies identified were 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 or internal control over financial reporting. The deficiencies that reached this degree of significance are described below, on an audit-by-audit basis, with the exception of similar deficiencies that were observed in multiple audits and are therefore grouped together.

Deficiencies in testing revenue (five audits)

In five audits, due to deficiencies in the testing of revenue, the Firm failed to obtain sufficient competent evidential matter to support its audit opinion. The deficiencies are as follows:

- One issuer entered into contracts that included sales of software and services. The issuer disclosed that it separately identified each component of these multiple-element arrangements based on vendor-specific objective evidence. The Firm failed to sufficiently test the issuer's recognition of revenue. Specifically, the Firm tested the issuer's compliance with its revenue recognition policies through inquiries of management. The Firm failed to review any contracts, failed to evaluate whether the service elements

^{7/} See AU 390, *Consideration of Omitted Procedures After the Report Date*, 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.

^{8/} The Board inspection process generally did not include review of such additional procedures or documentation, or of such revised accounting.

could be accounted for separately from the other contractual elements, and failed to assess whether vendor-specific objective evidence of the fair values of the various contractual elements existed. (Issuer A)

- In another audit, the Firm failed to sufficiently test the issuer's revenue, which was derived from sales, leases, and financing activities. The Firm's work papers included a standardized audit program for accounts receivable and sales, with some steps initialed and others marked not applicable. The audit steps in the program for testing revenue cut-off and performing substantive analytical procedures related to revenue were marked not applicable. The audit program did not include any steps providing for tests of details of revenue and, other than this audit program, the work papers did not include any documentation of any procedures performed to test revenue. (Issuer B)
- A new audit client's reported revenue had increased by over 100 percent from the prior year. The issuer disclosed that it did not have contracts with its customers. Two customers, both located overseas, were responsible for over 85 percent of the issuer's revenue for the year. Over half of the issuer's accounts receivable balance was over 90 days past due at year end. The issuer had reported that its predecessor auditor had had unresolved questions regarding the issuer's revenue recognition.

The Firm failed to test whether all of the criteria for revenue recognition had been met.^{9/} The Firm's work papers included a standardized audit program for accounts receivable and sales with some steps initialed and others marked not applicable. The Firm's work papers also contained an analytical procedures schedule to compare the current-year and prior-year balance sheet and income statement amounts. The column for the prior year on this schedule, however, contained no amounts. A Firm tick mark on the current-year revenues stated "change in income is due to normal business cycles." The schedule included no expectations and no other explanations regarding the changes in revenue or income. The steps on the audit program related to investigating any unexpected results from analytical procedures was marked not applicable, as was a step to scan the sales journal and investigate large

^{9/} The issuer restated its financial statements related to the matter discussed here.

or unusual transactions near year end. The audit program included no steps providing for tests of details of revenue, and the work papers did not include documentation of any other procedures performed to test revenue.^{10/} (Issuer C)

- Two issuers, both new audit clients of the Firm with significant operations outside of the United States, conducted a portion of their businesses in cash transactions. The Firm's work papers for both of these audits included a standardized audit program for accounts receivable and sales with some steps initialed and others marked not applicable. The Firm's testing of revenue for these issuers consisted primarily of the performance of analytical procedures that did not meet the requirements for substantive tests. In both audits, the analytical procedures were limited to a comparison of current-year and prior-year amounts. In one audit, revenue increased by over fifty percent, and in the other by over 1,000 percent. In the documentation of the analytical procedures for both audits, the Firm attributed the increase in revenue to increases in sales or operations, and concluded that the increase in revenue appeared reasonable. In neither audit did the Firm test controls over the financial information used in the analytical procedures, or perform other procedures to test the completeness and accuracy of the underlying information; develop any expectations; perform additional procedures in response to any significant unexpected differences; or obtain corroboration of management's explanations of such differences.^{11/} Further, with respect to one of these audits,^{12/} the Firm informed the inspection team that for certain of the issuer's sales for which accounts receivable existed, the issuer would not allow the customer to take possession of the product until payment was received. The Firm performed no additional procedures to determine whether revenue related to these sales had been appropriately recognized. (Issuers D and E)

^{10/} The Firm performed certain procedures related to the issuer's accounts receivable; however, as discussed below, there were significant deficiencies in these procedures.

^{11/} In one of these audits [Issuer E], the Firm performed certain procedures related to the issuer's accounts receivable; however, as discussed below, there were significant deficiencies in these procedures.

^{12/} Issuer E

Deficiencies in testing equity transactions (four audits)

In four audits, due to deficiencies in its testing of equity transactions, the Firm failed to obtain sufficient competent evidential matter to support its audit opinion. The deficiencies are as follows:

- During the year, two issuers issued stock and/or warrants for cash, for services, and to extinguish debt. In both audits, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the valuation of the stock issued for services and the extinguishment of debt. In addition, regarding the stock issued for services, the Firm failed to test the appropriateness of the issuers' recognition of the entire amount as an expense in the year the stock was issued. Further, the Firm failed to test certain of the inputs to the issuers' calculation of the value of the warrants, and to test whether the classification of the warrants in equity was appropriate. In addition, included in the work papers for both audits was a summary schedule showing the opening share balance, stock issuances during the year, and the closing share balance. Certain of the information in these schedules did not agree with the information in the issuers' financial statements and, further, each issuer's disclosures regarding the share issuances included internal inconsistencies. The Firm failed to address these various discrepancies.^{13/} (Issuers C and F)
- In another audit, the Firm failed to test inputs to the issuer's calculation of the value of warrants issued during the year, and to test whether the classification of the warrants in equity was appropriate. In addition, included in the work papers was a summary schedule showing the opening share balance, stock issuances during the year, and the closing balance. Certain of the information in this schedule did not agree with the information in the issuer's financial statements and, further, certain of the issuer's disclosures regarding the share issuances were inconsistent with each other. The Firm failed to address these various discrepancies. (Issuer E)
- Another issuer issued common stock to repay advances, to terminate certain management consulting services, and to terminate profit-sharing rights. The

^{13/} Issuer C restated its financial statements related to the matter discussed here.

issuer recorded this transaction using a per-share value equal to the par value of the common stock, even though, during the year, the issuer had sold stock for cash for a significantly higher amount. The Firm performed insufficient procedures to test the non-cash transaction, including the valuation of the common shares issued, as it failed to perform any procedures beyond reading an unsigned copy of the related agreement, comparing the number of shares issued in the transaction to a board of directors' consent, and inquiring of management regarding the value of the shares. The issuer also issued stock in exchange for outstanding convertible debentures and related accrued interest. With respect to the transactions involving the convertible debentures, the work papers contained an issuer-prepared schedule of the conversion calculation, but there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the inputs to this schedule. Further, the Firm failed to test, beyond obtaining documents related to the transaction, the issuer's acquisition of two private operating companies in return for shares of its common stock, which the issuer reflected as a reverse merger in its financial statements. (Issuer D)

Issuer A

In this audit, in addition to the revenue-testing deficiency discussed above, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The Firm failed to identify a departure from GAAP that it should have identified and addressed before issuing its audit report. The issuer's balance sheet included, as deferred offering costs, payments that had been made to investment bankers several years prior. As these costs related to aborted offerings of securities, under GAAP, they should have been treated as expenses rather than continued to be recorded as an asset.^{14/}
- The Firm failed to sufficiently test the issuer's accounts receivable and the related allowance for doubtful accounts. The Firm informed the inspection team that it had sent requests for confirmations of accounts receivable, that

^{14/} The conclusion that such costs should be treated as expenses and not as deferred offering costs is consistent with a view expressed by the SEC staff. See Codification of Staff Accounting Bulletins, Topic 5A, *Expenses of Offering*.

none of these confirmations were returned, and that the Firm was unable to send out second requests due to time constraints. Other than an initialed audit program step, however, there was no evidence in the audit documentation, and no persuasive other evidence, that this procedure had been performed. The Firm's other procedures to test the issuer's accounts receivable consisted of vouching certain items to invoices and other supporting documentation, but this procedure alone was not sufficient to establish the existence of the accounts receivable. In addition, nearly half of the issuer's accounts receivable balance was over 60 days past due at fiscal year end. The Firm's evaluation of the adequacy of the allowance for doubtful accounts was limited to a review of aging schedules and inquiry of management, and the documentation of this inquiry did not indicate any discussion of specific accounts.

Issuer B

In this audit, in addition to the revenue-testing deficiency discussed above, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The issuer sold and leased used products. It disclosed that many of its customers had limited financial resources and past credit problems, and that its most significant estimate was its allowance for doubtful accounts, which represented less than one percent of its gross accounts receivable. The Firm concluded that confirmation of notes and accounts receivable would not be effective, but there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed other audit procedures in lieu of confirmation. Further, the Firm's procedures to evaluate the issuer's allowance for doubtful accounts were limited to inquiry of management.^{15/}
- The Firm failed to perform sufficient procedures to test the issuer's liabilities related to borrowings under a line of credit. The Firm's procedures as described in its work papers were limited to comparing certain balances to the general ledger, the prior year's ending balance, and issuer-prepared

^{15/} The issuer restated its financial statements related to the matter discussed here.

schedules, including an amortization schedule, recalculating the division of the balance between short and long-term liabilities, and reviewing the current year's activity for reasonableness.

- The Firm failed to sufficiently test the issuer's consolidated statement of cash flows and failed to identify departures from GAAP that it should have identified and addressed before issuing its audit report. Specifically, the Firm failed to note that the amount of a goodwill impairment charge included on the statement was not equal to the goodwill impairment charge reflected on the consolidated statement of operations, the goodwill impairment charge was inappropriately reflected as an investing activity on the statement, and that amounts reflected on the statement as changes in accounts receivable and long term notes receivable were not equal to the respective changes in such balances reflected on the balance sheet, all in contravention of Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. In addition, the Firm failed to test the appropriateness of the reflection of changes in notes receivable as investment activities.

Issuer C

Over half of the issuer's accounts receivable balance was more than 90 days past due at year end. The issuer's allowance for doubtful accounts represented less than two percent of its gross accounts receivable. The Firm obtained an accounts receivable aging schedule, confirmed certain accounts receivable balances, vouched balances over a certain amount to invoices or other documentation, and discussed the accounts receivable with management, who informed the Firm that management had extended the due dates for all overdue accounts receivable, and had not demanded payment for any of them. The Firm also obtained a letter from management that indicated that three of the issuer's customers (including its largest customer, which was responsible for more than 85 percent of the issuer's accounts receivable) were qualified for, and awaiting, a grant from the World Bank for payment. Despite these circumstances, the Firm concluded, without performing additional procedures to assess the collectability of the accounts, that the issuer's allowance for doubtful accounts was reasonable.

Issuer E

In this audit, in addition to the revenue and equity-testing deficiencies discussed above, the Firm failed in the following respects to obtain sufficient competent evidential matter to support its audit opinion –

- The issuer sells heavy equipment both as a principal and on a consignment basis. The Firm engaged a foreign audit firm to perform a physical inventory observation. The inventory observation was performed approximately three weeks after year end; however, the Firm did not perform any audit procedures to test inventory activity between the issuer's year end and the inventory observation date. Further, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested whether the issuer held title to the inventory or had tested the carrying value of the inventory.
- The Firm failed to perform sufficient testing of the valuation of accounts receivable. Approximately one quarter of the issuer's accounts receivable was more than 90 days past due at year end. The issuer's allowance for doubtful accounts represented less than one-hundredth of one percent of its gross accounts receivable. The allowance had not changed from the prior year, even though accounts receivable had increased by 34 percent. The Firm confirmed certain accounts receivable balances. The work papers contained a notation that the Firm had inquired of the issuer's management regarding its process for determining the collectability of accounts receivable. The work papers also indicate that the Firm vouched significant accounts receivable to supporting documentation including subsequent receipts, but this testing did not address any of the accounts receivable that were more than 90 days past due.

Issuer F

The issuer acquired a private operating company in a stock-for-stock transaction. To effect the acquisition, the issuer issued shares of its common stock that exceeded the number of its shares that were previously outstanding. At the time it entered into the acquisition agreement, the issuer had ceased its prior operations. The Firm failed to evaluate whether the issuer was the accounting acquirer in this transaction and failed to

evaluate the appropriateness of the issuer's recording of the acquisition as a business combination using the purchase method.

Issuer G

In this audit, a foreign auditor performed an audit of the issuer's operating subsidiaries, which were responsible for all of the issuer's revenues and over half of its assets. The Firm's work papers included a standard audit program for accounts receivable and sales with some steps initialed with a notation that the Firm would rely on the foreign auditor. The copies of audit programs for certain other accounts that were included in the work papers were not completed and were left blank. The work papers also included a standard audit program for an audit of internal control over financial reporting, but none of the audit program steps were completed. The Firm did not refer to the other auditor in its audit reports. The level of planning, testing, supervision, and review exercised by the Firm with regard to the other auditor's work was not sufficient to enable the Firm to use the work of the other auditor in the same manner as if it had been performed by its own personnel. Given the significance of the components of the issuer's financial statements not audited by the Firm, the Firm should not have served as the principal auditor and did not have sufficient competent evidential matter to render an opinion on the financial statements or internal control over financial reporting of the issuer.

Issuer H

The issuer disclosed in its financial statements that it had agreed to acquire certain assets from two companies in exchange for shares of its common stock. The issuer did not record the effects of these transactions in its financial statements. The Firm failed to perform audit procedures to determine whether the asset purchase transactions had closed or whether any assets, liabilities, or equity transactions should have been recorded as a result of these transactions.^{16/}

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

^{16/} The issuer restated its financial statements related to the matter discussed here.

procedures concerning audit performance and the following six functional areas (1) tone at the top; (2) independence; (3) practices for client acceptance and retention; (4) practices for consultations on accounting, auditing, and SEC matters; (5) practices for establishment and communication of audit policies, procedures, and methodologies, including training; and (6) the Firm's policies and practices related to professional development, including continuing professional education for its personnel.

Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report. In the period since the inspection procedures were completed, however, the Board, through its disciplinary process, revoked the Firm's registration, and barred the Firm's partner who supervised the Firm's issuer audits from being associated with a registered public accounting firm. Certain defects in the Firm's quality control system are described in the Board order imposing those sanctions, which is publicly available on the Board's Web site.^{17/}

END OF PART I

^{17/} See *In the Matter of Moore & Associates, Chartered, and Michael J. Moore, CPA*, PCAOB Release No. 105-2009-006 (August 27, 2009), available at <http://pcaobus.org/Enforcement/Decisions/Pages/default.aspx>.



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PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX A

THE INSPECTION PROCESS

The inspection process was designed and performed to provide a basis for assessing the degree of compliance by the Firm with applicable requirements related to auditing issuers. This process included reviews of components of selected issuer audits completed by the Firm. These reviews were intended both to identify deficiencies, if any, in those components of the audits and to determine whether the results of those reviews indicated deficiencies in the design or operation of the Firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain functional areas of the Firm that could be expected to affect audit quality.

1. Review of Selected Audits

The inspection team reviewed aspects of selected audits, which it chose according to the Board's criteria. The Firm was not allowed an opportunity to limit or influence the engagement selection process or any other aspect of the review.

For each audit engagement selected, the inspection team reviewed the issuer's financial statements and certain SEC filings. The inspection team selected certain higher-risk areas for review and inspected the engagement team's work papers and interviewed the engagement partner regarding those areas. The areas subject to review included, but were not limited to, revenues, accounts receivable, equity transactions, consideration of fraud, related party transactions, and supervision of work performed by other auditors. The inspection team also analyzed potential adjustments to the issuer's financial statements that were identified during the audit but not corrected. For the selected engagements, the inspection team also reviewed written communications between the Firm and the issuer's audit committee, or equivalent.

When the inspection team identified a potential issue, it discussed the issue with the engagement partner. If the inspection team was unable to resolve the issue through this discussion and any review of additional work papers or other documentation, the inspection team issued a comment form on the matter and the Firm provided a written response to the comment form.

2. Review of Certain Quality Control Processes

The inspection team reviewed certain quality control processes both to identify possible defects in the Firm's system of quality control and, where applicable, to update the Board's knowledge of the Firm's policies and procedures in those areas.

a. Review of Independence Policies

The objective of the inspection procedures in this area was to evaluate the Firm's policies and procedures for compliance with the independence requirements applicable to its audits of issuers. To accomplish this objective, the inspection team reviewed the Firm's policies, procedures, and guidance; reviewed the Firm's monitoring of compliance with its policies and procedures; and interviewed the Firm's audit partner regarding the Firm's independence policies, practices, and procedures.

b. Review of Client Acceptance and Retention Policies

The objectives of the inspection procedures in this area were to evaluate whether the Firm appropriately considers and addresses the risks involved in accepting and retaining clients in the particular circumstances. Toward those objectives, the inspection team reviewed the Firm's policies, procedures, and forms related to client acceptance and continuance; interviewed the Firm's audit partner; and for all of the engagements reviewed, assessed whether the audit procedures included the specific actions, if any, contemplated in response to any risks identified in the client acceptance or retention process.

c. Review of Practices for Consultations

The objective of the inspection procedures in this area was to assess the effectiveness of the Firm's consultation process. Toward this objective, the inspection team gained an understanding of and evaluated the Firm's policies and procedures relating to its consultation process.

d. Review of Practices for Establishment and Communication of Audit Policies, Procedures, and Methodologies, Including Training

The objectives of the inspection procedures in this area were to update the inspection team's understanding of the Firm's processes for establishing and communicating audit policies, procedures, and methodologies and to evaluate whether the design of these processes could be expected to promote audit quality and enhance

compliance. The inspection team evaluated the effectiveness of the design of the Firm's processes for monitoring developments that could affect the Firm's audit policies, procedures, and methodologies.

e. Review of Professional Development

The objective of the inspection procedures was to evaluate whether the Firm was providing appropriate and adequate training opportunities to its staff. To achieve this objective the inspection team reviewed the Firm's policies related to its training and development program; interviewed the audit partner, who is responsible for assessing and monitoring the Firm's personnel's compliance with the Firm's training policies; and reviewed the continuing education reports for the Firm's audit partner.

f. Review of Tone at the Top

The objective of the review of the Firm's "tone at the top" was to assess whether actions and communications by the Firm's audit partner demonstrate a commitment to audit quality. Toward that end, the inspection team interviewed the Firm's sole audit partner to understand his perspective on the Firm's culture. In addition, the inspection team reviewed the Firm's quality control and procedures document.



APPENDIX B

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.