



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

Report on

**2010 Inspection of Jonathon P. Reuben, C.P.A.,
An Accountancy Corporation
(Headquartered in Torrance, California)**

Issued by the

Public Company Accounting Oversight Board

May 26, 2011

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. 104-2011-192



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 JONATHON P. REUBEN, C.P.A.,
AN ACCOUNTANCY CORPORATION**

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Jonathon P. Reuben, C.P.A., An Accountancy 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 name of Jonathon P. Reuben CPA, An Accountancy Corporation.

^{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 June 7, 2010 to June 11, 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 (Torrance, California) |
| Ownership structure | Professional corporation |
| Number of partners | 1 |
| Number of professional staff ^{4/} | 2 |
| Number of issuer audit clients ^{5/} | 8 |

^{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*

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 Engagement

The inspection procedures included a review of aspects of one audit performed by the Firm. 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.

In reviewing the audit, the inspection team identified what it considered to be audit deficiencies. 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 the audit reviewed included a deficiency 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. That deficiency was –

the failure to perform sufficient procedures related to the use of the work of a specialist.

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. 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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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.^{9/}

^{9/} 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.



JONATHON P. REUBEN, CPA

An Accountancy Corporation

23440 Hawthorne Blvd., Suite 200 • Torrance, CA 90505
(310) 378-3609 • Fax (310) 378-3709

April 13, 2011

Ms. Helen A. Munter
Director – Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006

Re: Response to Draft Report of Inspection

Dear Ms. Munter:

I have reviewed the draft copy of my firm's inspection report. My response to the comments reflected in the draft report is as follows:

Part II-A – Insufficiently supported audit opinion relating to use of the work of a specialist for Issuer A

The draft report correctly indicated that the issuer engaged a specialist to assist with the valuation of its oil and gas properties at the end of the fiscal year. I concur with the assertion that documentation of our audit procedures in this area was lacking. However, I disagree with the draft report's finding that sufficient competent evidential matter was not obtained to support our audit opinion. We in fact performed significant audit procedures in this area which were discussed with the PCAOB reviewer at the time of his review. Further, I believe we properly followed the guidance in AU Section 336, *Using the Work of a Specialist*.

During the planning and fieldwork phases of the audit, we gained a thorough understanding of the Company and the significant events that could impact the valuation of its oil and gas properties. Such an understanding was obtained primarily through the review and analysis of documents and discussions with management and third parties. This understanding was critical to our understanding and evaluation of the specialist's work relating to the reserves. We found the key events and audit implications to be as follows:

- In July 2008, the Company entered into a definitive agreement with an unrelated third party to sell a 50% interest in 25% of the oil property's acreage for \$2.5 million. Given that this purchase represented only 12.5% of the total

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acreage of the oil property, the third party would have valued the total property accordingly at approximately \$20,000,000.

- As of December 31, 2008, the third party described above had failed to fund \$1,000,000 remaining on the above agreement, and as a result the Company had not been able to fund any meaningful new development activities on its oil lease. As a result, the Company's wells were in need of significant rework, and only 7 to 10 wells were working at any point in time. Per our analysis of the specialist's reserve report, we had determined that the forecasted oil production figures were based upon all of the Company's 45 wells to be in full production. This assumption was deemed reasonable for purposes of determining potential future production for purposes of the ceiling test. However, given that we understood the current reality that many wells were in need of significant rework, we could not rely alone on the specialist's figures for opining on the reasonableness of the March 31, 2009 capitalized costs of the oil properties.
- We applied AU Section 336, *Using the Work of a Specialist*, including an understanding of his methods and assumptions. We compared the information contained in his 2009 report to the information contained in his 2008 report. We found that the March 31, 2009 reserve report had estimated future cash flows of approximately \$5.8 million, versus approximately \$14.1 million in the previous years' report. The significant change and decrease in present value discounted cash flow in 2009 compared to 2008 pertained to the decrease in prices between the two years. We reviewed the price history for the two years and concluded that the Specialist's pricing assumption was reasonable. The 2009 estimated reserves were not materially different than the estimated reserves indicated for 2008. Given the results of these procedures, we were comfortable with the Specialist and information contained in his report. However, testing his assumptions in 2009 was not deemed appropriate as his valuation was predicated on all 45 wells being fully producing. As indicated, the Company only had a few wells producing at any given point in 2009.
- We considered the implicit valuation of \$20,000,000 that was ascertained by the third party purchase of 12.5% for \$2,500,000 in July 2008, as described above.

In March 2010, the Company closed a secured convertible note and warrant transaction agreement with third parties totaling \$3,350,000. The Company has been able to use these funds to rework its wells, and based on current production reports in the last 3 months in 2010, approximately 7,700 barrels were produced. This compares favorably to the approximately 1,200 barrels that were produced in the fiscal year ended March 31, 2008 and approximately 3,000 barrels in the fiscal year ended March 31, 2009. This increase in production supports our previous

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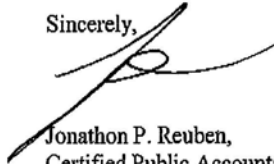
understanding that the Company's production was curtailed primarily by a lack of funds to adequately rework the wells.

I believe the above clearly indicates that we obtained sufficient competent evidential matter to support our opinion. Therefore, I disagree with the draft report's implication that our conclusion about the reasonableness of the capitalized oil and gas properties was based solely on reliance of the specialist's report. Although I concur that the documentation of our audit procedures in this area was lacking, I believe our additional procedures were appropriate and properly support our conclusion about the reasonableness of the oil and gas properties, as well as our overall audit opinion.

Redacted - Comments on Non-public Aspects of
Report

I appreciate the opportunity to respond to the Board's comments.

Sincerely,



Jonathon P. Reuben,
Certified Public Accountant