

**Inspection of
Durland & Company, CPAs, P.A.**

Issued by the
Public Company Accounting Oversight Board

March 9, 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**

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 DURLAND & COMPANY, CPAs, P.A.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Durland & Company, CPAs, P.A. ("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. 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.

^{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 August 30, 2004 to September 2, 2004. The fieldwork included certain procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Palm Beach, Florida)
Ownership structure	Professional association
Number of partners	1
Number of professional staff ^{3/}	None
Number of issuer audit clients ^{4/}	5

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in

^{3/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel.

^{4/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

conformity with GAAP.^{5/} 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 three 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.^{6/} The deficiencies identified in all three 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 –

- (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 (a) the accounting for a business combination and (b) the reporting of earnings per share and related disclosures in light of a stock split;

^{5/} 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.

^{6/} 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.

- (2) the pervasive failure to perform and document audit procedures;
- (3) inappropriately taking responsibility for the work of another auditor when the other auditor performed substantially all of the audit procedures that served as the basis for the Firm's opinion;
- (4) the failure to evaluate disclosure of issuances of stock and to perform and document tests of stock issuances for two issuers;
- (5) the failure to perform and document, for two issuers, sufficient procedures to evaluate the valuation, presentation, and disclosure of contingent liabilities and accrued expenses;
- (6) the failure to perform and document an evaluation of patent assets for impairment;
- (7) the failure to perform and document, for two issuers, tests of the sufficiency of the allowance for doubtful accounts receivable; and
- (8) the failure to make the necessary inquiries about the professional reputation and technical knowledge of other auditors performing procedures related to the issuer's audit.

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

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.

Durland & Company

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL ASSOCIATION

PO BOX 1175

PALM BEACH, FL 33480

(561) 881-9885 • FAX (561) 881-9886

Firm Response to PCAOB Inspection Report**PART I**

The Firm takes exception to numerous statements, assumptions, comments and conclusions made throughout this report. The Firm is also appalled at certain actions taken by the inspection team, which call into question the team's ability to act responsibly and in the public's best interest.

The first exception taken is in the very first sentence of the report. It states that the team conducted fieldwork from August 30 to September 2, 2004. The inspection team was ordered to evacuate the island of Palm Beach by noon September 1 due to the approach of Hurricane Francis.

The second exception taken is in the second sentence of the report. It states that the fieldwork included certain procedures tailored to the nature of the Firm. This statement is patently ludicrous considering that all of the team only had very large, (i.e. Final Four firms), experience and had never worked on any clients as small as those under inspection.

The first action taken by the team which the Firm finds appalling relates to the team's lodging. The team originally chose to stay at a Marriott on the beach on Singer Island. Upon my arrival at the attorney's office, (who had very graciously lent his conference room for their use for the entire scheduled week - at no cost to the PCAOB), the Firm's principal discovered that the team was on the phone attempting to find alternate accommodations that were not 40 minutes driving time away. The Firm's principal was asked if there were any hotels in the Town of Palm Beach. The Firm's principal named four hotels that were, at most, two miles away, and were even no more than one to two city blocks from the beach. The Firm's principal allowed as how there was one hotel only 4 blocks away that was on the beach, (because the Firm's principal was specifically asked about it), but the Firm's principal stated that it is in all probability THE most expensive hotel in the entire United States, being one of a very very small handful of five star hotels in the US. The Firm's principal also mentioned that in all probability the least expensive room would be about \$500 per night. The Firm's principal knows for a fact, (having a sibling employed by the federal government for the past 25 years), that there is a limitation allowed by the federal government across all agencies. The Firm's principal is absolutely certain this policy would not allow for the rates charged by the Breakers Hotel. The Firm's principal does not believe that they contacted ANY of the other four hotels named. The Firm's principal also knows that they did say that they said they stayed at the Breakers simply because it was the ONLY one of the five that was direct oceanfront. The Firm believes that both the appearance and the fact of this total disregard of the constituency the inspection team was representing, (i.e. the American public),

seriously calls into question their ability to act responsibly and in the best interest of their employer - the taxpaying citizens of the USA.

The second action taken by the team which the Firm finds appalling relates to the team's actions upon learning that two of the three engagements they were inspecting have their principal operations in a foreign country, which means that much of the underlying documentation would be in that foreign language. No one on the inspection team spoke the language nor had any experience in that country, a major NATO and European Union member. The Firm believes that the Team continuing its inspection without replacing at least one member with a member who was both fluent in the language as well as experienced with operations in said country again calls into question their ability to act responsibly and in the best interest of the public.

The Firm is very concerned as well as puzzled at certain other facts underlying this report. First, at the time the Team was required to evacuate, they stated that they had not completed the inspection and that they would have to return, either in full complement or as a smaller team. In addition, it is the Firm's understanding that the Team is REQUIRED to conduct an exit interview prior to issuance of a report. Such exit interview has never occurred. In fact, the only communication that the Firm is aware of subsequent to the team leaving was an email requesting confirmation of the Firm's mailing address, which was responded to.

A. Review of Audit Engagements

The Firm will herewith state that with regard to the eight listed items in this section that the inspection team either (A) did not raise the topic with the Firm's principal such that the Firm could address their concerns or (B) did not review item specific documentation due to the forced evacuation.

- (1) Regarding potential GAAP departures: (a) accounting for a business combination - (B) above and (b) earnings per share in light of a stock split - probably an oversight but (A) above.
- (2) pervasive failure to perform and document audit procedures - (A) above
- (3) taking responsibility for the work of another auditor - (A) above
- (4) disclosure of issuance of stock - (A) above
- (5) evaluation of contingent liabilities - (A) above
- (6) evaluation of patent assets - (B) above
- (7) allowance for doubtful accounts receivable - (A) above
- (8) other auditors inquiries - (B) above

END OF PART I