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ORDER INSTITUTING DISCIPLINARY  
PROCEEDINGS, MAKING FINDINGS,  
AND IMPOSING SANCTIONS

*In the Matter of Brock, Schechter &  
Polakoff, LLP,*

*Respondent.*

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) PCAOB Release No. 105-2012-002  
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) May 22, 2012  
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By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring Brock, Schechter & Polakoff, LLP ("BSP," or "Respondent"), revoking BSP's registration, and imposing a civil money penalty in the amount of \$20,000 upon BSP.<sup>1/</sup> The Board is imposing these sanctions on the basis of its findings that BSP violated PCAOB rules, quality control standards, and auditing standards, in connection with the audits of three China-based and Taiwan-based issuer clients.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against BSP.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (the "Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order Instituting Disciplinary

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<sup>1/</sup> BSP may reapply for registration after two (2) years from the date of this Order.

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Proceedings, Making Findings, and Imposing Sanctions (the "Order") as set forth below.<sup>2/</sup>

### III.

On the basis of Respondent's Offer, the Board finds<sup>3/</sup> that:

#### A. Respondent

1. BSP is, and at all relevant times was, a public accounting firm organized as a limited liability partnership under the laws of the State of New York, and headquartered in Buffalo, New York. BSP is licensed by the New York State Education Department (License No. 074249). BSP is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. At all relevant times, BSP was the independent auditor for each of the issuers identified in paragraph two, below.

#### B. Summary

2. This matter concerns BSP's failures to comply with PCAOB quality control standards. BSP failed to develop policies and procedures sufficient to provide it with reasonable assurance that the firm undertook only those public company audit engagements that it reasonably could expect to complete with professional competence. In 2006, BSP began auditing the financial statements of public companies located in the Republic of China ("Taiwan") and the People's Republic of China ("China"). At that time, BSP had no prior experience auditing public companies pursuant to PCAOB auditing standards, and BSP had no prior experience auditing

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<sup>2/</sup> The findings herein are made pursuant to the Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

<sup>3/</sup> The sanctions that the Board is imposing on Respondent in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondent's conduct described in this Order meets the condition set out in Section 105(c)(5), which provides that such sanctions may be imposed in the event of (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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companies based in Taiwan or China. Despite BSP's lack of professional staff with relevant training or experience, BSP accepted engagements to audit: (1) the 2006 through 2008 financial statements of Kid Castle Educational Corporation ("Kid Castle"), (2) the 2007 financial statements of China Junlian Integrated Surveillance, Inc. ("China Junlian"), (3) the 2008 financial statements of North American Gaming & Entertainment Corporation ("North American Gaming"), and (4) North American Gaming's internal controls over financial reporting ("ICFR") as of December 31, 2008 (collectively, the "Audits").

3. BSP also failed to develop quality control policies and procedures sufficient to ensure that the audit personnel assigned to work on public company audit engagements, including the auditor with final responsibility, possessed the degree of technical training and proficiency required to fulfill their engagement responsibilities. Finally, BSP's monitoring program, which failed to select any of BSP's public company audit engagements for review, was insufficient to provide the firm with reasonable assurance that its system of quality control was effective at assessing whether the firm's audits were performed in compliance with applicable professional standards.

4. This matter also involves BSP's failure to comply with PCAOB auditing standards related to the planning, performance, and supervision of the Audits. BSP failed to gather sufficient competent evidential matter, and failed to use due care and to exercise professional skepticism in the course of the Audits. The Audits were planned and performed by two other audit firms, one located in Taiwan (the "Taiwan Firm") and one located in China (the "China Firm") (collectively, the "Foreign Firms"),<sup>4/</sup> not by BSP. During the Audits, BSP had minimal contact with the Foreign Firms, and performed an inadequate review of the working papers prepared by the Foreign Firms.

5. Finally, this matter concerns BSP's failure to comply with Auditing Standard No. 3, Audit Documentation ("AS3"), by failing to ensure that it obtained and reviewed engagement completion documents from the Foreign Firms prior to issuing audit reports.

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<sup>4/</sup> Both of the Foreign Firms are registered with the Board pursuant to Section 102 of the Act and PCAOB rules.



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### C. Respondent Violated PCAOB Rules and Quality Control Standards.

6. PCAOB rules require that a registered public accounting firm comply with certain quality control standards.<sup>5/</sup> PCAOB quality control standards require that a registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."<sup>6/</sup> PCAOB quality control standards state that policies and procedures "should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."<sup>7/</sup> A firm's policies and procedures should provide reasonable assurance that the firm undertakes "only those engagements that the firm can reasonably expect to be completed with professional competence."<sup>8/</sup> Policies and procedures, as well, should be established to provide the firm with reasonable assurance that work "is assigned to personnel having the degree of technical training and proficiency required in the circumstances."<sup>9/</sup> Finally, PCAOB quality control standards provide that policies and procedures "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control . . . are suitably designed and are being effectively applied."<sup>10/</sup> As detailed below, BSP failed to comply with PCAOB quality control standards in connection with the Audits.

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<sup>5/</sup> PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*, and 3400T, *Interim Quality Control Standards*.

<sup>6/</sup> QC § 20.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

<sup>7/</sup> Id. § 20.17.

<sup>8/</sup> See id. § 20.15.

<sup>9/</sup> See id. § 20.13; QC §§ 40.03 and 40.06, *The Personnel Management Element of a Firm's System of Quality Control - Competencies Required by a Practitioner-in-Charge of an Attest Engagement*. See also AU § 230.06, *Due Professional Care in the Performance of Work*.

<sup>10/</sup> See id. § 20.20; QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

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### *BSP Agrees to Audit Taiwan-Based and China-Based Issuers*

7. In May 2006, the Foreign Firms solicited several U.S.-based auditing firms, including BSP, to work with the Foreign Firms in auditing the financial statements of Taiwan-based and China-based issuers. Neither BSP nor any of its professional staff had any prior experience working with the Foreign Firms when BSP responded to the solicitations. The Foreign Firms proposed that they would perform all of the audit field work, but that BSP would issue the audit reports.

8. After being approached by the Foreign Firms, BSP's Director of Accounting and Auditing, James R. Waggoner,<sup>11/</sup> and BSP's managing partner traveled to China and Taiwan to meet with the Foreign Firms. These meetings—conducted over a 10-day, multi-city trip—were introductory in nature. BSP representatives discussed business opportunities with the Foreign Firms, and discussed how the Foreign Firms and BSP would divide responsibility for completing audits. BSP and the Taiwan Firm also met with representatives of Kid Castle.

9. The partners of BSP, nonetheless, agreed that the firm could accept audit engagements in which the Foreign Firms would perform all of the audit field work, and BSP would issue the audit opinions based on the audit work of the Foreign Firms. BSP determined to accept these engagements despite the fact that BSP had no professional staff with: (1) experience auditing the financial statements of issuers under PCAOB auditing standards; (2) experience auditing companies based in Taiwan and China; or (3) the ability to understand or communicate in Chinese.

### *Engagement Acceptance*

10. As stated above, at the time that BSP and its partners determined to accept audit engagements for public companies based in Taiwan and China, BSP lacked any professional staff with training or experience in conducting public company audits pursuant to PCAOB standards. BSP did nothing to provide relevant training to its existing staff, and it did not hire additional staff with the necessary training or experience. BSP's policies and procedures did not provide reasonable assurance that

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<sup>11/</sup> See James R. Waggoner, CPA, PCAOB Release No. 105-2012-003 (May 22, 2012). Waggoner, a BSP principal at all times relevant to this matter, served as the auditor with final responsibility for each of the Audits. Waggoner also had quality control responsibilities at all times relevant to this matter in his capacity as BSP's Director of Accounting and Auditing.

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the firm undertook only engagements that the firm could reasonably expect to be completed with professional competence.<sup>12/</sup>

### Personnel Management

11. BSP assigned Waggoner to serve as the practitioner-in-charge of the Audits. BSP understood, prior to the firm accepting the Kid Castle, China Junlian, and North American Gaming audit engagements, that Waggoner had never audited a public company. BSP understood that Waggoner had no experience or training in auditing public companies under PCAOB auditing standards. BSP also understood that Waggoner had no experience or training in performing an ICFR audit.

12. BSP did not provide Waggoner with relevant training.<sup>13/</sup> BSP also did not provide Waggoner with professional staff possessing relevant training or experience.<sup>14/</sup> BSP's quality control policies and procedures were not adequate to provide the firm with reasonable assurance that (a) the practitioner-in-charge of the Audits possessed the competencies necessary to fulfill his engagement responsibilities, and (b) work was assigned to personnel having the degree of technical training and proficiency required in the circumstances.<sup>15/</sup>

### Monitoring Procedures

13. One element of quality control is monitoring, to provide a firm with reasonable assurance "that its system of quality control is effective."<sup>16/</sup> Monitoring procedures may include preissuance or postissuance reviews of selected audit engagements.<sup>17/</sup> As part of its quality control system, BSP participated in a peer review program every three years, and it also conducted its own internal postissuance reviews of selected audit engagements in years that were not subject to peer review. The firm's

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<sup>12/</sup> QC § 20.15(a).

<sup>13/</sup> QC § 40.07.

<sup>14/</sup> QC § 20.13.

<sup>15/</sup> QC § 20.13; QC § 40.06.

<sup>16/</sup> QC § 30.03.

<sup>17/</sup> Id.

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internal review program was administered by Waggoner in his capacity as BSP's Director of Accounting and Auditing. The Accounting and Auditing committee, under Waggoner's leadership, was also responsible for providing information to the audit firm that performed BSP's peer reviews.

14. Despite the fact that the Kid Castle, China Junlian and North American Gaming audits were BSP's first audit engagements subject to PCAOB auditing standards, and despite the fact that these audits were BSP's first audit engagements for companies with operations in China and Taiwan, none of these Audits were selected for review either in BSP's internal review program or during peer reviews. BSP understood that BSP's postissuance review and peer review programs were not selecting any of these audits for review. The same person who was serving as the auditor with final responsibility for the Audits, Waggoner, also was administering BSP's postissuance review program, and leading the committee that interacted with BSP's peer reviewers. BSP's monitoring procedures did not enable the firm to obtain reasonable assurance that its system of quality control was effective.<sup>18/</sup>

### **D. Respondent Violated PCAOB Rules and Auditing Standards in Connection With the Audits.**

15. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.<sup>19/</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>20/</sup> Among other things, PCAOB standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.<sup>21/</sup>

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<sup>18/</sup> Id.; QC § 30.08.

<sup>19/</sup> See PCAOB Rules 3100 and 3200T.

<sup>20/</sup> AU § 508.07, *Reports on Audited Financial Statements*.

<sup>21/</sup> AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230; and AU § 326, *Evidential Matter*.



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16. PCAOB auditing standards in effect at the time of the Audits also required that an audit be adequately planned and that assistants be properly supervised.<sup>22/</sup> "Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished. Elements of supervision include instructing assistants, keeping informed of significant problems encountered, reviewing the work performed, and dealing with differences of opinion among firm personnel."<sup>23/</sup> As detailed below, BSP failed to comply with these standards in connection with the Audits.

### Audits of Kid Castle's 2006-2008 Financial Statements

17. At all relevant times, Kid Castle was a corporation organized under the laws of the State of Florida, with its headquarters in Taipei, Taiwan. As disclosed in its public filings, Kid Castle was a provider of English-language instruction and educational services to children for whom Chinese is the child's primary language. At all relevant times, Kid Castle was required to file periodic reports with the United States Securities and Exchange Commission ("Commission") under Section 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"), and its shares were traded on the OTC Bulletin Board and the Pink Sheets. At all relevant times, Kid Castle was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

18. The Taiwan firm approached BSP concerning the Kid Castle audit engagement on or about June 22, 2006. Kid Castle engaged BSP as its auditor beginning on or about July 26, 2006. In audit reports dated June 14, 2007, March 28, 2008, and March 13, 2009, BSP expressed unqualified opinions on Kid Castle's financial statements for the fiscal years ended December 31, 2006 ("2006"), December 31, 2007 ("2007"), and December 31, 2008 ("2008"), respectively. The audit reports were included in Forms 10-K which Kid Castle filed with the Commission on June 14, 2007 (for the 2006 audit), March 31, 2008 (for the 2007 audit), and March 17, 2009 (for the 2008 audit). BSP also expressed an unqualified opinion on Kid Castle's restated financial statements for fiscal year 2007, in an audit report dual-dated March 28, 2008, and September 17, 2008, that was included in Kid Castle's Form 10-K/A filed with the Commission on September 23, 2008. The 2006-2008 audits of Kid Castle are referred

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<sup>22/</sup> AU § 311.01, *Planning and Supervision* (superseded by Auditing Standard No. 9, *Audit Planning*, and Auditing Standard No. 10, *Supervision of the Audit Engagement*, effective for audits of financial statements for fiscal years beginning on or after December 15, 2010).

<sup>23/</sup> Id. § 311.11.





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to, collectively, as the "Kid Castle audits." Each audit report stated that, in BSP's opinion, Kid Castle's financial statements presented fairly, in all material respects, the company's financial position in conformity with accounting principles generally accepted in the United States ("US GAAP"), and that BSP's audit was conducted in accordance with PCAOB standards.

19. BSP failed to comply with applicable professional standards in connection with the Kid Castle audits.<sup>24/</sup> First, the BSP engagement team failed to adequately plan the audits by failing to consider the nature, extent, and timing of the work to be performed. BSP wholly relied upon the Taiwan Firm to consider the nature, extent, and timing of the work to be performed, to prepare a written audit program, and to modify planned audit procedures as the audit progressed. The BSP engagement team also failed to adequately supervise the audits by failing: (1) to determine the technical training and ability of the Taiwan Firm assistants, and to assign audit tasks to the assistants according to their abilities; (2) to instruct the Taiwan Firm assistants; (3) to inform the Taiwan Firm assistants of their responsibilities and the objectives of the audit procedures to be performed; (4) to inform the Taiwan Firm assistants of matters that may have affected the nature, extent, and timing of the procedures they were to perform; and (5) to direct the Taiwan Firm assistants to bring to BSP's attention significant accounting and auditing questions raised during the audits.<sup>25/</sup>

20. BSP's principal involvement in the Kid Castle audits was its post-field work review of the work performed by the Taiwan Firm assistants. BSP failed to adequately perform this review. In the 2006 audit, Waggoner, the auditor with final responsibility for the audit, assigned the review of the working papers to a BSP staff member. The BSP staff member identified deficiencies related to the audit procedures performed, and audit evidence gathered, for material account balances in Kid Castle's financial statements. Waggoner forwarded the staff person's list of identified deficiencies to the Taiwan Firm. However, the BSP engagement team did not require the Taiwan Firm assistants to perform any additional procedures or to gather any additional evidence, and the BSP engagement team did not otherwise determine whether these deficiencies were properly addressed by the Taiwan Firm, prior to BSP issuing its audit report containing an unqualified opinion on the financial statements.<sup>26/</sup>

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<sup>24/</sup> See AU § 150; AU § 230.06.

<sup>25/</sup> See AU § 230.06; AU §§ 311.11-.12.

<sup>26/</sup> See AU § 326.25; AU § 311.13.

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21. For the 2007 audit, despite knowing of deficiencies identified in the preceding year's audit work, the BSP engagement team did not receive or review any working papers from the Taiwan Firm, except for a set of worksheets showing the consolidation of Kid Castle's subsidiary accounts. For the 2008 audit, the BSP engagement team did not review any working papers from the Taiwan Firm.

22. As a result of the BSP engagement team's failures to comply with PCAOB auditing standards, including failing to ensure that the Taiwan Firm assistants gathered sufficient competent evidential matter,<sup>27/</sup> BSP improperly issued its audit reports for Kid Castle's 2006-2008 financial statements, which incorrectly stated that BSP had conducted the Kid Castle audits in accordance with PCAOB auditing standards.<sup>28/</sup>

23. Finally, BSP failed to comply with AS3 in connection with each of the Kid Castle audits. AS3 required the BSP engagement team to obtain, review, and retain engagement completion documents from the Taiwan Firm sufficient to provide a thorough understanding of the significant findings or issues in the Kid Castle audits, complete with cross-references to supporting audit documentation, as appropriate.<sup>29/</sup> The BSP engagement team failed to obtain, review, and retain engagement completion documents from the Taiwan Firm prior to BSP issuing the Kid Castle audit reports.

### Audit of China Junlian's 2007 Financial Statements

24. At all relevant times, China Junlian was a Nevada corporation, with its headquarters in Guangzhou, China. As disclosed in its public filings, China Junlian, through its wholly owned subsidiary, was organized to engage in consulting, systems development, and customer service in the field of surveillance technology. At all relevant times, China Junlian's common stock was registered with the Commission under Section 12(g) of the Exchange Act. At all relevant times, China Junlian reported that there was no active market for its securities. At all relevant times, China Junlian was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

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<sup>27/</sup> See AU §§ 326.01 and .25.

<sup>28/</sup> See AU § 508.07.

<sup>29/</sup> Auditing Standard No. 3, *Audit Documentation* ("AS3") (subsequently amended for fiscal years beginning after December 15, 2010), ¶¶ 13 and 19.



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25. The China Firm approached BSP concerning the China Junlian audit engagement on or about May 21, 2007. China Junlian engaged BSP as its auditor beginning in or about July 2007. BSP audited China Junlian's financial statements for the fiscal year ended December 31, 2007. In an audit report dated April 15, 2008, BSP expressed an unqualified opinion on China Junlian's 2007 financial statements. The audit report was included in a Form 10-KSB that China Junlian filed with the Commission on April 15, 2008. The audit report stated that, in BSP's opinion, China Junlian's financial statements presented fairly, in all material respects, the company's financial position in conformity with US GAAP, and that BSP's audit was conducted in accordance with PCAOB standards.

26. BSP failed to comply with applicable professional standards in connection with the China Junlian audit.<sup>30/</sup> First, the BSP engagement team failed to adequately plan the audit by failing to consider the nature, extent, and timing of the work to be performed.<sup>31/</sup> BSP wholly relied upon the China Firm to consider the nature, extent, and timing of the work to be performed, to prepare a written audit program, and to modify planned audit procedures as the audit progressed. The BSP engagement team also failed to adequately supervise the audit by failing: (1) to determine the technical training and ability of the China Firm assistants, and to assign audit tasks to the assistants according to their abilities; (2) to instruct the China Firm assistants; (3) to inform the China Firm assistants of their responsibilities and the objectives of the audit procedures to be performed; (4) to inform the China Firm assistants of matters that may have affected the nature, extent, and timing of the procedures they were to perform; and (5) to direct the China Firm assistants to bring to BSP's attention significant accounting and auditing questions raised during the audit.<sup>32/</sup>

27. BSP's principal involvement in the China Junlian audit was its post-field work review of the work performed by the China Firm assistants. BSP failed to adequately perform this review. Waggoner, the auditor with final responsibility for the audit, assigned the review of the China Firm's working papers to a BSP staff member. Although the audit working papers received from the China Firm revealed discrepancies in the audit evidence relating to material accounts, including revenue, the BSP engagement team did not determine whether those discrepancies were properly

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<sup>30/</sup> See AU § 150; AU § 230.06.

<sup>31/</sup> See AU § 311.05.

<sup>32/</sup> See AU § 230.06; AU §§ 311.11-.12.

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addressed by the China Firm prior to BSP issuing its audit report containing an unqualified opinion.

28. As a result of the BSP engagement team's failures to comply with PCAOB auditing standards, including failing to ensure that the China Firm assistants gathered sufficient competent evidential matter,<sup>33/</sup> BSP improperly issued its audit report for China Junlian's 2007 financial statements, which incorrectly stated that BSP had conducted the audit in accordance with PCAOB auditing standards.<sup>34/</sup>

29. Finally, BSP failed to comply with AS3 in the course of the China Junlian audit. The BSP engagement team failed to obtain, review, and retain an engagement completion document from the China Firm prior to BSP issuing its audit report.<sup>35/</sup>

### Audit of North American Gaming's 2008 Financial Statements and ICFR

30. At all relevant times, North American Gaming was a Delaware corporation, with its headquarters in Xi'An, China. As disclosed in its public filings, North American Gaming was engaged in the business of exploring for gold, zinc, lead and other mineral products in China. At all relevant times, North American Gaming's common stock was registered with the Commission under Section 12(g) of the Exchange Act and its common stock was quoted on the OTC Bulletin Board. At all relevant times, North American Gaming was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

31. The China Firm approached BSP concerning the North American Gaming audit engagement on or about May 13, 2008. North American Gaming engaged BSP as its auditor beginning on or about August 11, 2008. BSP performed an integrated audit of North American Gaming's annual financial statements for the fiscal year ended December 31, 2008, and management's assessment of ICFR as of December 31, 2008 (the "Integrated Audit"). In an audit report dated April 15, 2009, BSP expressed a qualified opinion on North American Gaming's 2008 financial statements. The audit report stated that, except for the company's goodwill balance, the impairment of which would affect the results of operations, in BSP's opinion, the financial statements presented fairly, in all material respects, the company's financial position in conformity

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<sup>33/</sup> See AU §§ 326.01 and .25.

<sup>34/</sup> See AU § 508.07.

<sup>35/</sup> See AS3 ¶ 19.

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with US GAAP, and that BSP's audit was conducted in accordance with PCAOB standards.

32. In a separate report dated April 15, 2009, BSP issued an unqualified opinion for BSP's audit of management's assessment of the effectiveness of ICFR. This report stated that, in BSP's opinion, North American Gaming maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008. The ICFR report stated that the audit was conducted in accordance with PCAOB standards. Both the financial statement audit report and the ICFR audit report were included in a Form 10-KSB that North American Gaming filed with the Commission on April 15, 2009, and in a Form 10-KSB/A that North American Gaming filed with the Commission on March 22, 2010.

33. BSP failed to comply with applicable professional standards in connection with the North American Gaming Integrated Audit.<sup>36/</sup> First, the BSP engagement team failed to comply with PCAOB auditing standards in planning the Integrated Audit.<sup>37/</sup> BSP wholly relied upon the China Firm to consider the nature, extent, and timing of the work to be performed, to prepare a written audit program, and to modify planned audit procedures as the audit progressed. Although the China Firm provided the BSP engagement team with a document purporting to memorialize planning for the Integrated Audit, that document was written in Chinese, was largely untranslated, and was not adequate to provide the BSP engagement team with an understanding of the audit plan.<sup>38/</sup>

34. The BSP engagement team also failed to adequately supervise the Integrated Audit by, among other things, failing: (1) to determine the technical training and ability of the China Firm assistants, and to assign audit tasks to the assistants according to their abilities; (2) to adequately instruct the China Firm assistants; (3) to adequately inform the China Firm assistants of their responsibilities and the objectives of the audit procedures to be performed; (4) to adequately inform the China Firm assistants of matters that may have affected the nature, extent, and timing of the procedures they were to perform; and (5) to direct the China Firm assistants to bring to

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<sup>36/</sup> See AU § 150; AU § 230.06.

<sup>37/</sup> See AU §§ 311.02 and .13.

<sup>38/</sup> Id.

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BSP's attention significant accounting and auditing questions raised during the Integrated Audit.<sup>39/</sup>

35. BSP's principal involvement in the Integrated Audit was its post-field work review of the work performed by the China Firm assistants. BSP failed to adequately perform this review. Waggoner, the auditor with final responsibility for the audit, assigned the review of the China Firm's working papers to a BSP staff member. The BSP staff member identified deficiencies related to the audit procedures performed, and audit evidence gathered, for material account balances in North American Gaming's financial statements, and advised the China Firm of these deficiencies. However, the BSP engagement team failed to determine whether these deficiencies were properly addressed prior to BSP issuing its audit reports.

36. As a result of the BSP engagement team's failures to comply with PCAOB auditing standards, including failing to ensure that the China Firm assistants gathered sufficient competent evidential matter,<sup>40/</sup> BSP improperly issued its audit reports on North American Gaming's ICFR and financial statements.<sup>41/</sup> Both of the reports incorrectly stated that BSP had conducted its audit in accordance with PCAOB auditing standards.

37. Finally, BSP failed to comply with AS3 in connection with the Integrated Audit. The BSP engagement team failed to obtain, review, and retain an engagement completion document from the China Firm prior to BSP issuing the North American Gaming audit reports.<sup>42/</sup>

## IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

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<sup>39/</sup> See AU § 230.06; AU §§ 311.11-.12.

<sup>40/</sup> See AU § 326.01; AU § 326.25.

<sup>41/</sup> See AU § 508.07; AS5 ¶ 3.

<sup>42/</sup> See AS3 ¶ 19.

**ORDER**

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Brock, Schechter & Polakoff, LLP is hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Brock, Schechter & Polakoff, LLP is revoked;
- C. After two (2) years from the date of this Order, Brock, Schechter & Polakoff, LLP may reapply for registration by filing an application pursuant to PCAOB Rule 2101; and
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$20,000 is imposed upon Brock, Schechter & Polakoff, LLP. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Brock, Schechter & Polakoff, LLP shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies Brock, Schechter & Polakoff, LLP as the Respondent in these proceedings, sets forth the title and PCAOB Release Number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe Brown

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Phoebe Brown  
Secretary

May 22, 2012