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ORDER INSTITUTING DISCIPLINARY )  
PROCEEDINGS, MAKING FINDINGS, ) PCAOB Release No. 105-2012-003  
AND IMPOSING SANCTIONS )  
In the Matter of James R. Waggoner, CPA, ) May 22, 2012  
Respondent. )

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By this Order, the Public Company Accounting Oversight Board (the "Board" or "PCAOB") is censuring James R. Waggoner, CPA ("Waggoner" or "Respondent") and barring him from being an associated person of a registered public accounting firm.<sup>1/</sup> The Board is imposing this sanction on the basis of its findings that Waggoner violated PCAOB rules and auditing standards in connection with (a) the audits of three China-based and Taiwan-based issuer clients, and (b) the improper creation, addition, and backdating of audit documentation prior to a Board inspection.

**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 Waggoner.

**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> Waggoner may file a petition for Board consent to associate with a registered public accounting firm after three (3) 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. James R. Waggoner, 54, of Kenmore, New York, is a certified public accountant who is licensed to practice under the laws of the State of New York (License No. 053569). At all relevant times, Waggoner was a principal of Brock, Schechter & Polakoff, LLP<sup>4/</sup> (the "Firm," or "BSP"), and an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). At all relevant times, Waggoner was BSP's Director of Accounting & Auditing. Waggoner was the auditor with final responsibility for BSP's audits of the financial statements of each of the issuers identified in paragraph two, below. BSP separated Waggoner from employment with the Firm on or about July 11, 2011.

#### B. Summary

2. This matter arises from BSP's audits of: (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

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<sup>2/</sup> The findings herein are made pursuant to 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.

<sup>4/</sup> See Brock, Schechter & Polakoff, LLP, PCAOB Release No. 105-2012-002 (May 22, 2012).



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("North American Gaming"), and (4) North American Gaming's internal controls over financial reporting ("ICFR") as of December 31, 2008 (collectively, the "Audits"). Waggoner was the auditor with final responsibility for the Audits.

3. Waggoner failed to comply with PCAOB auditing standards related to the planning, performance, and supervision of the Audits. Also, Waggoner failed to gather sufficient competent evidential matter, and failed to use due care and to exercise professional skepticism in the course of the Audits. As detailed below, the Audits were planned and performed by two other audit firms, one located in the Republic of China (the "Taiwan Firm") and one located in the People's Republic of China (the "China Firm") (collectively, the "Foreign Firms"),<sup>5/</sup> not by Waggoner and BSP. During the Audits, Waggoner had minimal contact with the Foreign Firms, and performed an inadequate review of the working papers prepared by the Foreign Firms.

4. In addition, Waggoner failed to comply with Auditing Standard No. 3, Audit Documentation ("AS3"), by failing to ensure that BSP obtained and reviewed engagement completion documents from the Foreign Firms prior to authorizing BSP to issue the audit reports.

5. Waggoner also failed to comply with Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements ("AS5"), in the course of auditing North American Gaming's ICFR. Waggoner authorized BSP's issuance of an audit report containing an unqualified opinion on the effectiveness of North American Gaming's ICFR as of December 31, 2008, despite knowing that North American Gaming could not perform an impairment analysis over a material asset as of December 31, 2008. Waggoner failed to perform any audit procedures to determine whether this control deficiency constituted a material weakness in North American Gaming's ICFR.

6. Waggoner also violated PCAOB Rule 4006, Duty to Cooperate with Inspectors, and AS3 in connection with the Board's inspection of the audits of the 2007 financial statements of Kid Castle and China Junlian. Waggoner improperly created, added, and altered audit working papers, after the relevant documentation completion dates, and shortly before the Board's inspection of these audits. This misleading documentation was provided to the Board in connection with the Board's inspection. The late-added documentation did not indicate the date that information was added to the working papers, the name of the person who prepared the additional documentation, and the reason for adding it, as required by AS3.

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<sup>5/</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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7. Finally, Waggoner violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*. Waggoner omitted to take steps, in his capacity as BSP's Director of Accounting and Auditing, to ensure that one or more of the Audits were selected for postissuance review by the firm. Waggoner knew, or was reckless in not knowing, that this omission would directly and substantially contribute to BSP's failure to comply with PCAOB quality control standards relating to the monitoring element of the firm's quality control system.

### **C. Respondent Violated PCAOB Rules and Auditing Standards in Connection with the Audits.**

8. 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>6/</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>7/</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>8/</sup> PCAOB auditing standards in effect at the time of the Audits required that the auditor with final responsibility for the audit adequately plan the audit and supervise any assistants.<sup>9/</sup>

9. Although "portions of the planning and supervision" of the audit may be delegated to assistants,<sup>10/</sup> the auditor with final responsibility remains "responsible for

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<sup>6/</sup> See PCAOB Rules 3100 and 3200T.

<sup>7/</sup> AU § 508.07, *Reports on Audited Financial Statements*.

<sup>8/</sup> AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work* (subsequently amended for fiscal years beginning after December 15, 2010); and AU § 326, *Evidential Matter*.

<sup>9/</sup> AU § 311, *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>10/</sup> *Id.* § 311.02.

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the assignment of tasks to, and supervision of, assistants."<sup>11/</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>12/</sup> As detailed below, Waggoner failed to comply with these standards in connection with the Audits.

### Waggoner and BSP Agree to Audit Taiwan-Based and China-Based Issuers

10. 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 Waggoner nor BSP 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.

11. After being approached by the Foreign Firms, Waggoner 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. Waggoner and the BSP managing partner discussed business opportunities with the Foreign Firms, and discussed how the Foreign Firms and BSP would divide responsibility for completing audits. Waggoner, BSP's managing partner, and the Taiwan Firm also met with representatives of Kid Castle.

12. Waggoner accepted the audit engagements on behalf of BSP, and assumed the role of the auditor with final responsibility for all of the Audits.<sup>13/</sup> Waggoner did so despite the fact that neither he nor any other BSP auditor: (1) had any experience auditing the financial statements of issuers under PCAOB auditing standards; (2) had any experience auditing companies based in Taiwan or China; or (3) had any ability to understand or communicate in Chinese.

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<sup>11/</sup> AU § 230.06 (effective for audits of financial statements for periods ending on or after December 15, 1997, subsequently amended for audits of financial statements for fiscal years beginning on or after December 15, 2010).

<sup>12/</sup> AU § 311.11.

<sup>13/</sup> See *id.* § 311.02.

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

13. 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).

14. 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 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.

15. Waggoner failed to comply with applicable professional standards in connection with the Kid Castle audits.<sup>14/</sup> First, Waggoner failed to adequately plan the audits by failing to consider the nature, extent, and timing of the work to be performed. Waggoner 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. Waggoner 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

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<sup>14/</sup> See AU § 150; AU § 230.06.

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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 Waggoner's attention significant accounting and auditing questions raised during the audits.<sup>15/</sup>

16. Waggoner also failed to adequately review the work performed by the Taiwan Firm assistants. In the 2006 audit, Waggoner 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, Waggoner did not require the Taiwan Firm assistants to perform any additional procedures or to gather any additional evidence, and Waggoner did not otherwise determine whether these deficiencies were properly addressed by the Taiwan Firm, prior to authorizing BSP to issue its audit report containing an unqualified opinion on the financial statements.<sup>16/</sup>

17. For the 2007 audit, despite knowledge of the deficiencies identified by BSP staff in the preceding year's audit work, Waggoner 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, Waggoner did not review any working papers from the Taiwan Firm.

18. As a result of Waggoner's failures to comply with PCAOB auditing standards, including Waggoner's failure to ensure that the Taiwan Firm assistants gathered sufficient competent evidential matter,<sup>17/</sup> Waggoner improperly authorized the issuance of the Firm's 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>18/</sup>

19. Finally, Waggoner failed to comply with AS3 in connection with each of the Kid Castle audits. AS3 required Waggoner to obtain, review, and retain engagement completion documents from the Taiwan Firm sufficient to provide a thorough

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<sup>15/</sup> See AU § 230.06; AU §§ 311.11-.12.

<sup>16/</sup> See AU § 326.25; AU § 311.13.

<sup>17/</sup> See AU §§ 326.01 and .25.

<sup>18/</sup> See AU § 508.07.

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understanding of the significant findings or issues in the Kid Castle audits, complete with cross-references to supporting audit documentation, as appropriate.<sup>19/</sup> Waggoner failed to obtain, review, and retain engagement completion documents from the Taiwan Firm prior to authorizing the issuance of the Kid Castle audit reports.

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

20. 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).

21. 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.

22. Waggoner failed to comply with applicable professional standards in connection with the China Junlian audit.<sup>20/</sup> First, Waggoner failed to adequately plan the audit by failing to consider the nature, extent, and timing of the work to be performed.<sup>21/</sup> Waggoner 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. Waggoner also failed to adequately

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

<sup>20/</sup> See AU § 150; AU § 230.06.

<sup>21/</sup> See AU § 311.05.

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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 Waggoner's attention significant accounting and auditing questions raised during the audit.<sup>22/</sup>

23. Waggoner also failed to adequately review the work performed by the China Firm assistants. Waggoner 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, Waggoner did not determine whether those discrepancies were properly addressed by the China Firm prior to authorizing BSP to issue its audit report containing an unqualified opinion.

24. As a result of Waggoner's failures to comply with PCAOB standards, including Waggoner's failure to ensure that the China Firm assistants gathered sufficient competent evidential matter,<sup>23/</sup> Waggoner improperly authorized the issuance of the Firm's 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>24/</sup>

25. Finally, Waggoner failed to comply with AS3 in the course of the China Junlian audit. Waggoner failed to obtain, review, and retain an engagement completion document from the China Firm prior to authorizing BSP to issue its audit report.<sup>25/</sup>

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

26. 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

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<sup>22/</sup> See AU § 230.06; AU §§ 311.11-.12.

<sup>23/</sup> See AU §§ 326.01 and .25.

<sup>24/</sup> See AU § 508.07.

<sup>25/</sup> See AS3 ¶ 19.

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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).

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

28. 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.

### *Planning, Supervision and Performance of the Integrated Audit*

29. Waggoner failed to comply with applicable professional standards in connection with the North American Gaming Integrated Audit.<sup>26/</sup> First, Waggoner failed to comply with PCAOB auditing standards in planning the Integrated Audit.<sup>27/</sup> Waggoner 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 BSP with

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<sup>26/</sup> See AU § 150; AU § 230.06.

<sup>27/</sup> See AU §§ 311.02 and .13.

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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 Waggoner with an understanding of the audit plan.<sup>28/</sup>

30. Waggoner 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 Waggoner's attention significant accounting and auditing questions raised during the Integrated Audit.<sup>29/</sup>

31. Waggoner also failed to adequately review the work performed by the China Firm assistants in the Integrated Audit. Waggoner 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, Waggoner failed to determine whether these deficiencies were properly addressed prior to authorizing BSP to issue its audit reports.

### *Performance of the ICFR Audit*

32. Waggoner failed to comply with AS5 in the course of auditing North American Gaming's ICFR. AS5 required Waggoner to evaluate the severity of each control deficiency that came to his attention, and to determine whether the control deficiency constituted a material weakness.<sup>30/</sup> AS5 requires that an issuer's ICFR can be deemed effective only if no material weaknesses in internal controls exist.<sup>31/</sup>

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<sup>28/</sup> Id.

<sup>29/</sup> See AU § 230.06; AU §§ 311.11-.12.

<sup>30/</sup> AS5 ¶ 62.

<sup>31/</sup> Id. ¶¶ 2 and 90.

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33. In the course of auditing North American Gaming's 2008 financial statements, Waggoner determined that the inability of North American Gaming to complete an impairment analysis of its goodwill asset could produce a material misstatement in the financial statements. Waggoner also determined that this control deficiency precluded BSP from issuing an unqualified opinion on North American Gaming's 2008 financial statements. However, Waggoner took no steps to evaluate the severity of this known control deficiency in order to determine whether it constituted a material weakness in North American Gaming's ICFR.<sup>32/</sup> Waggoner failed to comply with AS5 when he improperly authorized the issuance of the Firm's unqualified audit report on North American Gaming's ICFR .

### *Completion of the Integrated Audit*

34. As a result of Waggoner's failures to comply with PCAOB standards, including Waggoner's failure to ensure that the China Firm assistants gathered sufficient competent evidential matter,<sup>33/</sup> Waggoner improperly authorized the issuance of the Firm's audit reports on North American Gaming's ICFR and financial statements.<sup>34/</sup> Both of the reports incorrectly stated that BSP had conducted its audit in accordance with PCAOB auditing standards.

35. Finally, Waggoner failed to comply with AS3 in connection with the Integrated Audit. Waggoner failed to obtain, review, and retain an engagement completion document from the China Firm prior to authorizing BSP to issue the North American Gaming audit reports.<sup>35/</sup>

### **D. Waggoner Violated PCAOB Rule 4006 and AS3.**

36. PCAOB rules require that an associated person of a registered public accounting firm "shall cooperate with the Board in the performance of any Board inspection."<sup>36/</sup> This cooperation obligation "includes an obligation not to provide misleading documents or information in connection with the Board's inspection

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<sup>32/</sup> Id. ¶ 62.

<sup>33/</sup> See AU § 326.01; AU § 326.25.

<sup>34/</sup> See AU § 508.07; AS5 ¶ 3.

<sup>35/</sup> See AS3 ¶ 19.

<sup>36/</sup> PCAOB Rule 4006.

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processes."<sup>37/</sup> PCAOB auditing standards require that an auditor make certain written disclosures if the auditor adds documentation to the audit working papers after the "documentation completion date," which is the date (not more than 45 days after the audit report release date) when a "complete and final set of audit documentation should be assembled for retention."<sup>38/</sup> Specifically, information added to the working papers after the documentation completion date must disclose the date the information was added, the person preparing the additional information, and the reason for adding the information to the working papers after the documentation completion date.<sup>39/</sup>

37. BSP released its audit opinions on Kid Castle's and China Junlian's 2007 financial statements on March 28, 2008, and April 15, 2008, respectively. The documentation completion dates for these audits, therefore, were May 12, 2008, and May 30, 2008, respectively: 45 days after the report release dates.<sup>40/</sup>

38. On or before October 29, 2008, Waggoner learned that the Board would inspect the 2007 Kid Castle and China Junlian audits. On October 29, 2008, Waggoner e-mailed the audit partner at the Taiwan Firm and requested that the Taiwan Firm translate and provide to BSP the 2007 Kid Castle audit working papers from the "critical" and "most important" areas of the audit. On or about January 9, 2009, the Taiwan Firm provided Waggoner with the requested audit documentation, none of which had been in BSP's possession, translated or untranslated, prior to receiving notice of the upcoming Board inspection.

39. On or about January 16, 2009, Waggoner added the newly received audit documentation to the 2007 Kid Castle audit working papers. The newly added documentation did not indicate the date(s) the documents were translated, the name of the person(s) who prepared the translated documents, or the reason(s) for translating and adding the documents to the working papers after the documentation completion date. This conduct failed to comply with AS3.

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<sup>37/</sup> Peter C. O'Toole, CPA, PCAOB Release No. 105-2011-005 (Aug. 1, 2011) ¶ 5. See also Gately & Associates, LLC, SEC Release No. 34-62656 at 22-23 (Aug. 5, 2010) (sustaining Board finding that respondents failed to cooperate with Board inspection).

<sup>38/</sup> See AS3 ¶¶ 15-16.

<sup>39/</sup> Id. ¶ 16.

<sup>40/</sup> See id. ¶ 15.

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40. On or about January 16, 2009, Waggoner created and modified several other documents which he added to the 2007 Kid Castle and China Junlian working papers. Waggoner: (1) added handwritten notations to audit working papers, backdated to "3/08" and "4/08;" and (2) created an undated memo purporting to memorialize the planning process for both of the audits. Waggoner did not indicate the dates that the modifications and additions were made to the working papers, the name of the person making the modifications and additions, and the reason for making these modifications and additions to the working papers after the documentation completion date. This conduct, as well, failed to comply with AS3.

41. Field work for the Board's inspection began on January 20, 2009, and was completed on January 30, 2009. During that time, Waggoner made the foregoing documents available to the Board's inspectors. At no time did Waggoner inform the Board's inspectors that these modifications to the working papers were made shortly before, and in anticipation of, the Board's inspection. This conduct violated Rule 4006.

### **E. Waggoner Violated PCAOB Rule 3502.**

42. PCAOB rules require that a registered public accounting firm comply with certain quality control standards.<sup>41/</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>42/</sup> One element of quality control is monitoring, to provide a firm with reasonable assurance "that its system of quality control is effective."<sup>43/</sup> Monitoring procedures may include preissuance or postissuance reviews of selected audit engagements.<sup>44/</sup> In addition, PCAOB rules prohibit an associated person of a registered public accounting firm from omitting to take an action knowing, or recklessly not knowing, that the omission would directly and substantially contribute to a violation of Board standards by that firm.<sup>45/</sup> As described below, BSP failed to comply with the Board's quality control standards, and Waggoner directly and substantially

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<sup>41/</sup> PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*, and 3400T, *Interim Quality Control Standards*.

<sup>42/</sup> QC § 20.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

<sup>43/</sup> QC § 20.20; QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

<sup>44/</sup> QC § 30.03.

<sup>45/</sup> PCAOB Rule 3502.



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contributed to these violations.

43. 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. 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's monitoring procedures did not enable the firm to obtain reasonable assurance that its system of quality control was effective.<sup>46/</sup>

44. In his capacity as the Director of Accounting and Auditing, Waggoner was responsible for, among other things, administering the monitoring element of BSP's quality control system, including the internal review program. BSP's Accounting and Auditing committee, under Waggoner's leadership, was also responsible for providing information to the audit firm that performed BSP's peer reviews. Waggoner also was the auditor with final responsibility for each of the firm's public company audits. Waggoner knew that BSP's monitoring process was not selecting any of the public company audits for review. Waggoner omitted to take any steps to ensure that any of the Audits were selected for postissuance review. Waggoner knew, or was reckless in not knowing, that this omission would directly and substantially contribute to BSP's failure to comply with PCAOB quality control standards relating to the monitoring element of the Firm's quality control system.

## 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:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), James R. Waggoner, CPA is hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2),

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<sup>46/</sup> QC §§ 30.03 and .08.

**ORDER**

James R. Waggoner, CPA is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i); and

- C. After three (3) years from the date of this Order, James R. Waggoner may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

ISSUED BY THE BOARD.

/s/ Phoebe Brown

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Phoebe Brown  
Secretary

May 22, 2012