

**Inspection of
Francis & Company CPAs**

Issued by the

Public Company Accounting Oversight Board

June 29, 2009

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 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.



INSPECTION OF FRANCIS & COMPANY CPAS

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Francis & Company CPAs^{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 Francis & Co., CPA's and Francis & Co., CPAs.

^{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 May 19, 2008 to May 22, 2008. 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 (Marietta, Georgia)
Ownership structure	Partnership
Number of partners	2
Number of professional staff ^{4/}	1
Number of issuer audit clients ^{5/}	2

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board

^{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 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.

^{6/} This focus 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.

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, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. 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.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in both of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient

^{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/} 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.

competent evidential matter to support its opinion on the issuer's financial statements.^{9/}
Those deficiencies were –

- (1) the failure to perform audit procedures to determine that the loans receivable selected for confirmation were representative of the entire population; and
- (2) the failure to perform audit procedures to test the amounts reported in the statement of cash flows.

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

^{9/} 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; 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.



PCAOB Release No. 104-2009-109A
Inspection of Francis & Company CPAs
June 29, 2009
Page 5

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

* * * *

B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.^{10/} On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

1. Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

a. Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit, specifically with respect to the following issues:

(i) Loans receivable

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's audit procedures with respect to performing appropriate reconciliation procedures to ensure that it selected loans receivable for

^{10/} A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

confirmation from a complete population of outstanding loans receivable. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its audit procedures for selecting loans receivable balances to confirm from a complete population of loans receivable. [Issuer A]

(ii) Statement of cash flows

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's audit procedures with respect to testing the financial statement assertions related to the statement of cash flows. This information provides cause for concern regarding the Firm's quality control policies and procedures related to its audit procedures for testing the presentation and disclosure of amounts reported in the statement of cash flows. [Issuer B]

b. Audit risk and materiality

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will appropriately assess audit risk at the individual account balance, class-of-transaction, or disclosure level [Issuers A and B]; obtain an understanding of relevant electronic data processing controls and applications and determine whether such controls have been placed in operation [Issuer A]; and consider materiality in planning the audit [Issuer B]. This information provides cause for concern that the Firm will not design and perform audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the relevant assertion and financial statement level.

c. Fraud Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all required procedures in accordance with the provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, the Firm did not perform audit procedures to (i) inquire of management, or others with equivalent authority and responsibility, as to their views about the risks of material misstatement due to fraud [Issuers A and B], (ii) hold a brainstorming discussion among engagement personnel regarding the risks of material misstatement due to fraud [Issuers A and B], (iii) test journal entries and other adjustments for evidence of possible material misstatements due to fraud [Issuer A], and (iv) identify, assess, and respond to risks that may have resulted in a material misstatement due to fraud [Issuers A and B].

d. Engagement Completion Document

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will prepare an engagement completion document in accordance with AS No. 3, which is necessary to demonstrate that the work performed by engagement personnel addresses the significant findings and issues of the engagement. [Issuers A and B]

2. Monitoring and Addressing Identified Weaknesses

The Firm's system of quality control appears to lack a monitoring element sufficient to provide the firm with reasonable assurance that the Firm's policies and procedures for engagement performance are suitably designed and effectively applied. Appropriate monitoring includes meaningfully addressing identified weaknesses in the Firm's audit practice, which the Firm has failed to do in at least one respect. In a report dated May 11, 2006, which related to an inspection of the Firm conducted in 2005, the Board noted that the Firm's procedures appeared not to provide sufficient assurance that the Firm would identify and address the inappropriate presentation of a transaction in the statement of cash flows. An appropriate approach to monitoring would have resulted in the Firm avoiding a similar type of deficiency in audits performed after it was brought to the Firm's attention, yet a deficiency related to the Firm's testing the presentation and disclosure of amounts reported in the issuer's consolidated statement of cash flows was noted in this inspection. This indicates that the Firm had not responded meaningfully to the deficiency identified in its previous PCAOB inspection. [Issuer B]

* * * *

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.^{11/}

^{11/} 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.



April 26, 2009

Mr. George H. Diacont, Director
Division of Registration and Inspection
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

RE: Draft Report of Inspection: Francis & Company, CPAs

Dear Mr. Diacont;

We have elected to submit a written response to the draft inspection report of our firm.

Part 1, Section A(1): “the failure to perform audit procedures to determine that the loans receivable selected for confirmation were representative of the entire population.”

Response: As of the Confirmation date, November 30, 2007, the Company had \$148.3 million in loans outstanding. The firm confirmed \$115.7 million in loans, or 78.1% of the total population. We also reviewed 167 loan files, aggregating \$58.5 million, or 37.8% of total loans. In this review we examined each loan to ascertain existence, quality, as well as consistency with the Company’s internal rating system. As part of this audit, we pulled the payment history on each loan to ascertain (a) quality – determine if payments are being made timely; and (b) existence – determine if payments are being made. As part of this audit, we examined the note, title, deed, insurance, etc. We examined all items furnished by the borrower, such as financial statements, tax returns, projections, etc. We also reviewed the loan analysis, including cash flow schedules, as prepared by Company’s personnel.

Overall, about 70% of the time spent on this audit centered on the loan portfolio. We confirmed directly with the borrowers 78.1% of all loans, and, in effect, performed alternative procedures (through file review and payment history) on 37.8% of all loans. We believe that the above confirmations and alternative procedures are indeed representative of the entire population.

One should note that the Company reconciles the loan trial balance (from which the confirmations were selected) with the general ledger on a daily basis, including November 30, 2007. In performing the year-end audit, as of December 31, 2007, we reviewed all the reconciling items and documented our review. We submit that our review of November 30, 2007 is not documented. Also note that reconciling differences are generally less than \$200 thousand, representing about .13% of the loan population and .10% of total assets.

Based on the large size of the loan sample (78.1%), the small size of the reconciling items (.13%), and the documented year-end 2007 reconciliation by the firm, it is our belief that the conclusion that the audit opinion is not adequately supported is unjustifiably harsh.

Part 2, Section A(2): “the failure to perform audit procedures to test the amounts reported in the statements of cash flows.”

Response: We maintain that several significant procedures were performed, such as reviewing all purchases, sales and calls with respect to the securities portfolio, and all purchases and dispositions of fixed assets, confirmations of loans, confirmation of deposits and review of the equity section among others. Our auditor-in-charge determined that sufficient testing was performed prior to releasing the audit report. We believe that the above statement by the inspection team is harsh based on the existing facts.

We thank the inspection team members for their professionalism in which they conducted the inspection. We hope that you will consider our response prior to issuing the final report. Please contact Eddie Francis at (678) 488-3054 (mobile) if additional information or clarifications are required.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eddie Francis', with a long horizontal flourish extending to the right.

Eddie Francis