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**Inspection of
Sherb & Co., LLP
(Headquartered in New York, New York)**

Issued by the
Public Company Accounting Oversight Board
March 31, 2011

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT
PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2011-121



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 SHERB & CO., LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Sherb & Co., LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report 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.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from November 30, 2009 to December 11, 2009. 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	3 (Boca Raton, Florida; New York, New York; and Beijing, People's Republic of China)
Ownership structure	Limited liability partnership
Number of partners	7
Number of professional staff ^{3/}	27
Number of issuer audit clients ^{4/}	84

^{3/} "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.

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

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{5/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{6/} 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 nine 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.^{7/} The deficiencies identified in two of the audits reviewed included deficiencies of such

^{5/} 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.

^{6/} 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.

^{7/} 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*

significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{8/} Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning an other-than-temporary impairment of available-for-sale securities;
- (2) the failure, in two audits, to perform sufficient procedures to determine if an investment was impaired; and
- (3) the failure to perform sufficient audit procedures to test revenues.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.^{9/}

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.

^{8/} 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.

^{9/} The Board inspection process did not include review of any additional audit work related to the restatement.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the 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.^{10/}

^{10/} 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.



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Offices in New York and Florida

Certified Public Accountants

January 20, 2011

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

Dear Mr. Diacont:

We are pleased to respond to the Public Company Accounting Oversight Board's ("PCAOB") draft report dated December 23, 2010 on the Inspection of Sherb & Co., LLP (the "Firm") in November and December 2009 pursuant to section 104 of the Sarbanes-Oxley Act of 2002.

Sherb & Co., LLP is committed to high audit quality while performing our engagements effectively and efficiently. Our goal is to improve on our quality and your inspection has assisted us in identifying areas where we can improve our audit quality and audit process. We found your inspectors to be courteous, professional, helpful and knowledgeable.

While we disagree with your findings, we recognize the fact that professional judgments were made during the performance of audits and by Board inspectors during their subsequent inspection. Professional judgments of experienced, well trained professionals may differ as to the nature and extent of necessary auditing procedures, conclusions reached and required documentation. We appreciate the views of the Board's inspectors and will continue to improve our audit procedures and documentation process as appropriate.

We respectfully disagree with the statement that we failed to perform sufficient audit procedures to test revenues. The Board's comment stated that we did not consider a certain method of accounting for a specific transaction. However, we explained that there was "higher level" authoritative literature under which this transaction was accounted for. While we appreciate the Board's input we disagree with their assessment on how this transaction should have been audited and documented. Furthermore, this transaction represented approximately 13% of the issuer's total revenues that were recognized during the year. Therefore, we believe that there was adequate competent evidential matter to support our opinion and our audit procedures were sufficient to test revenues as a whole.

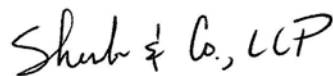
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We respectfully disagree with the statement that we failed to perform sufficient procedures to determine if an investment was impaired. This specific issue with one of the issuers required a high degree of professional judgment and subjectivity. The investment was made by the issuer during the audit year inspected. At the time of the issuance of our audit report we concluded that the carrying value and fair value of this investment was not materially different. We believe that our audit procedures were sufficient to support our conclusion. The investment was valued by the issuer using a valuation technique in accordance with FAS 157, paragraph 18 (*now ASC 820*). Our audit working papers documented in detail the audit procedures performed and conclusion reached in auditing the issuer's method of testing this investment for impairment. The amount of this investment was significantly lower at year end than at the time of the initial investment which was made earlier in the same year. Furthermore this investment represented 11% of total assets and approximately 25%-35% of total investments of the same or similar nature that were tested for impairment as well. Of these assets, a significant portion of them were in fact impaired. Therefore, we believe that our audit procedures to determine if the investments held by this issuer as a whole were sufficient to support our opinion.

We carefully considered each of the report findings and took steps necessary to fulfill our responsibilities under 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*.

Sherb & Co. LLP remains committed to continual improvement in our audit practice and quality control processes, including areas the PCAOB identifies for potential improvement. We look forward to applying what we have learned during this process and are committed to working with the PCAOB to continue to improve on the quality of our work. We fully support the PCAOB's mission to improve audit quality throughout the profession.

Sincerely,

Handwritten signature of Sherb & Co., LLP in cursive script.

Sherb & Co., LLP