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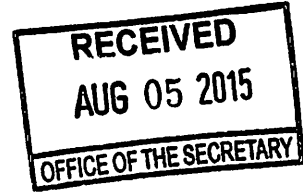
**United States of America
Before the
Securities and Exchange Commission**

In the Matter of

Halpern & Associates LLC
And Barbara Halpern, CPA,

Respondents.

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: Administrative Proceeding
: File No. 3-16399
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STATEMENT OF HARRIS L. DEVOR, CPA

AUGUST 3, 2015

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The following constitutes the Statement of Harris L. Devor, CPA (the "Statement") in the above-captioned Administrative Proceeding (the "Proceeding").

I. QUALIFICATIONS

1. I am a Certified Public Accountant ("CPA") and a shareholder of the accounting firm of Shechtman Marks Devor PC ("SMD"). My professional experience since graduating from Temple University in 1973 has been as an accountant and auditor for 42 years for large and small companies in a variety of industries. I specialize in providing accounting, auditing, and litigation support services, including the estimation of damages. I have lectured on various topics, including financial reporting to the Securities and Exchange Commission ("SEC"), accounting, auditing, statistical sampling and securities fraud. A copy of my resume is attached to this Statement as Exhibit #1.

II. PRIOR TESTIMONY

2. In the past four years I have provided expert testimony at trial and deposition as described in Exhibit #2 to this Statement.

III. COMPENSATION

3. SMD has been engaged by the SEC's Division of Enforcement (the "Division") in the Proceeding. In connection with this engagement, SMD is being compensated for services performed on an hourly basis at its applicable billing rates. My hourly rate is \$625. The hourly rates for other professionals in the firm who have assisted me range from \$295 to \$395. SMD's compensation is not contingent upon the outcome of the Proceeding.

IV. MATERIALS REVIEWED

4. As part of my analysis in connection with the preparation of this Statement, I, or other professionals working under my supervision, have reviewed auditor workpapers, financial statements, pleadings, testimony in the Division's investigation and related exhibits, and other documents listed in Exhibit #3 to this Statement.

V. SCOPE OF ASSIGNMENT

5. The Division has asked that I determine and opine on whether the financial statements¹ of Lighthouse Financial Group LLC (“Lighthouse”) as of and for the year ended December 31, 2009 (“fiscal 2009”), were in accordance with generally accepted accounting principles (“GAAP”) and SEC Regulations.

6. Additionally, the Division has asked that I determine the accuracy of Lighthouse’s Computation of Net Capital Pursuant to Uniform Net Capital Rule 15c3-1^{2,3} as of December 31, 2009.

7. Further, I have been asked to opine on whether the audit performed by Halpern & Associates LLC (“H&A”) and its named partner, Barbara Halpern, of the financial statements of Lighthouse as of and for the year ended December 31, 2009 and the supplementary information required by Rule 17a-5 (the “December 2009 audit”), was in accordance with the auditing standards relevant to such audit – i.e., auditing standards generally accepted in the United States of America (hereinafter referred to as “GAAS”) – which were in effect at the time H&A’s December 2009 audit was performed.

VI. SUMMARY OF OPINIONS

8. Based on my review and analysis of the information set forth throughout this Statement and Exhibit #3 to this Statement, my consideration of the accounting and auditing guidance referenced throughout this Statement, and my 42 years of experience

¹ AU 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (“AU 551”), states that an auditor’s standard report covers the basic financial statements: balance sheet, statement of income, statement of retained earnings or changes in stockholder’s equity, and statement of cash flows. AU 551 continues by stating, “[t]he following presentations are considered part of the basic financial statements: descriptions of accounting policies, notes to financial statements, and schedules and explanatory material that are identified as being part of the basic financial statements.” (AU 551.02).

² To compute net capital for purposes of Rule 15c3-1, a broker-dealer first calculates an entity’s net worth, computed in accordance with GAAP, adds back certain qualifying subordinated loans and then deducts the value of certain illiquid assets. The last step is to deduct certain specified percentages, or haircuts, based on the market value of the securities or other inventory it holds in proprietary accounts.

³ This computation is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934 (“Rule 17a-5”).

as an accountant and auditor, I conclude that Lighthouse's financial statements as of and for the year ended December 31, 2009 were materially misstated and, therefore, were not presented in conformity with GAAP and SEC Regulations.

9. Additionally, I conclude that Lighthouse's Computation of Net Capital Pursuant to Uniform Net Capital Rule 15c3-1 as of December 31, 2009 was materially inaccurate.

10. Further, I conclude that H&A did not conduct its December 2009 audit of Lighthouse's financial statements as of and for the year ended December 31, 2009 in accordance with GAAS which were in effect at the time H&A performed its December 2009 audit.

VII. GAAP AND SEC REGULATIONS, AND LIGHTHOUSE'S VIOLATIONS THEREOF

11. The SEC requires that financial statements filed with the SEC be prepared in accordance with GAAP. [17 C.F.R. § 210.4-01(a)(1)]. SEC Regulation S-X states that financial statements filed with the SEC that are not prepared and presented in accordance with GAAP "...will be presumed to be misleading or inaccurate, despite footnote or other disclosures...". [17 C.F.R. § 210.4-01(a)(1)]. Violations of GAAP, therefore, equate to violations of SEC Regulations.

12. GAAP are promulgated by the Financial Accounting Standards Board ("FASB") and are those principles recognized by the accounting profession and the SEC as the uniform rules, conventions, and procedures necessary to define accepted accounting practices at a particular time, against which financial presentations should be measured. [Statement on Auditing Standards ("AU") § 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report* ("AU 411") .02].

13. Financial statements (including disclosures) are a central feature of financial reporting and are a principal means of communicating accounting information to parties

external to an entity, such as investors.⁴ It is my opinion that Lighthouse's December 2009 financial statements were materially misstated and, therefore, were not presented in conformity with GAAP and, therefore, SEC Regulations.

14. FASCON No. 6, *Elements of Financial Statements*, ("FASCON 6") defines assets as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Related, FASCON 6 defines liabilities as probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Lighthouse misstated its reported asset and liability values in its December 31, 2009 financial statements. Specifically, "Securities owned at market value" was overstated by approximately \$2.2 million, "Due to brokers" was understated by approximately \$2.3 million and "Securities sold not yet purchased" was understated by approximately \$125,500 - resulting in material misstatement of Lighthouse's reported assets and liabilities. These misstatements also resulted in a material misstatement of Lighthouse's December 31, 2009 15c3-1 net capital calculation.

VIII. LIGHTHOUSE'S MISSTATEMENTS WERE MATERIAL

15. The impact of the aforementioned misstatements to Lighthouse's financial statements and 15c3-1 net capital calculation as of December 31, 2009 was material.

16. Materiality concerns the significance of an item included in or excluded from an entity's financial statements to users of such. Materiality can be considered a threshold for the required recognition of amounts in the financial statements or disclosure in the notes thereto and "...recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles, while other matters are not important." [FASCON 2, ¶¶

⁴ FASB Statement of Financial Accounting Concepts ("FASCON") No. 1, *Objectives of Financial Reporting by Business Enterprises* ("FASCON 1"), ¶ 6; FASCON No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* ("FASCON 5"), ¶ 5. The FASB Concepts Statements set the objectives, qualitative characteristics, and other concepts that guide selection of economic phenomena to be recognized and measured for financial reporting and their display in financial statements or related means of communicating information. They are the critical foundation of, and framework for, all promulgated GAAP.

123-132; AU § 312, *Audit Risk and Materiality in Conducting an Audit* (“AU 312”) .03].

The concept of materiality is defined in GAAP as:

The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

(FASCON 2, *Glossary of Terms*).

17. Financial statements are materially misstated when they contain misstatements whose effect (individually or in the aggregate) is important enough to cause them to not be presented fairly, in all material respects, in conformity with GAAP. The misstatements noted above resulted in Lighthouse’s assets being overstated by approximately 8.8% and its liabilities being understated by approximately 18%. These misstatements resulted in Lighthouse’s December 31, 2009 net worth being materially misstated which resulted in a material misstatement to Lighthouse’s net capital calculation.

IX. H&A’S AUDIT OF LIGHTHOUSE

18. H&A was engaged by Lighthouse to perform an audit and to express an opinion regarding the financial statements that Lighthouse filed, pursuant to Rule 17a-5, as of and for the year ended December 31, 2009 and net capital calculation as of December 31, 2009.

The Role and Responsibilities of an External Auditor such as H&A

19. The fair presentation of financial statements in conformity with GAAP is the responsibility of a company’s management. The external auditor’s responsibilities and objectives are to (1) plan and perform an audit to obtain reasonable assurance about whether such financial statements are free of material misstatement, whether caused by

error or fraud⁵ (i.e., unintentionally or intentionally⁶), and (2) express an opinion on “...the fairness with which [financial statements] present, in all material respects, the financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles,”⁷ as well as in certain instances the operating effectiveness of the company’s internal controls.

20. Specific to broker dealer audits, Rule 17a-5 requires that an audit be conducted in accordance with GAAS and include a review of the accounting system, the internal accounting control and procedures for safeguarding securities, including appropriate tests for the period since the prior audit. Rule 17a-5 requires that an audit include all procedures necessary to enable the auditor to express an opinion on the following:

- The statements of financial condition, results of operations, and cash flows
- The computation of net capital under SEC Rule 15c3-1
- The computation for determination of reserve requirements for broker dealers under SEC Rule 15c3-3
- Information relating to the possession or control requirements under SEC Rule 15c3-3

21. The auditor’s report is the medium through which the auditor expresses or disclaims an opinion on the underlying financial statements,⁸ and states, among other things, whether the audit has been conducted in accordance with GAAS. (AU 110.01). The standard audit report includes what is commonly known as an “unqualified” (or “clean”) audit opinion, which states that the company’s financial statements are presented fairly, in all material respects, in conformity with GAAP. Such an opinion may only be expressed when the auditor has formed such opinion on the basis of an audit performed in accordance with GAAS, and the auditor has, therefore, been able to apply all the

AU § 312, *Audit Risk and Materiality in Conducting an Audit* (“AU 312”) and AU § 316, *Consideration of Fraud in a Financial Statement Audit* (“AU 316”) state that fraud is a broad legal concept, so an auditor’s interest specifically relates to acts that result in a material misstatement of the financial statements – i.e., auditors do not make legal determinations of whether fraud occurred. (AU 312.07; AU 316.05).

⁶ AU 312.09.

⁷ AU § 110, *Responsibilities and Functions of the Independent Auditor* (“AU 110”) .01-03.

⁸ As well as supplementary information (e.g., computation of net capital under SEC Rule 15c3-1), if applicable.

procedures he or she considers necessary in the circumstances. [AU § 508, *Reports on Audited Financial Statements* (“AU 508”) .07, .10, .22].

22. Unqualified audit opinions enhance the reliability or credibility of a company’s financial statements. (FASCON 1, ¶ 16). An unqualified audit opinion provides a level of assurance to users of a company’s financial statements that such financial statements are presented fairly, in all material respects, in accordance with GAAP. H&A issued an *unqualified* audit opinion in connection with its December 2009 audit with respect to Lighthouse’s financial statements as of and for the year ended December 31, 2009 and supplementary information required by Rule 17a-5 (including the computation of net capital) as of December 31, 2009.

23. H&A’s unqualified audit opinion communicated to the users of Lighthouse’s financial statements H&A’s conclusions that 1) Lighthouse’s financial statements as of and for the year ended December 31, 2009, were presented fairly, in all material respects, in conformity with GAAP, 2) its audit had been conducted in accordance with GAAS, and 3) supplementary information required by Rule 17a-5 (including the computation of net capital) was fairly stated in all material respects. More specifically, such opinion stated the following:

We have audited the accompanying statement of financial condition of Lighthouse Financial Group, LLC (the “Company”) as of December 31, 2009, and the related statements of income, statement of changes in liability subordinated to claims of general creditors, changes in stockholders’ equity, changes in liabilities subordinated to claims of general creditors, and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on

a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Financial Group, LLC as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on pages 13-17 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

(Lighthouse Exhibit 8).

X. SPECIFIC ASSESSMENT OF H&A'S DECEMBER 2009 AUDIT

Audit Team

24. Those from H&A identified as having been part of the December 2009 audit include:

- Dan Kanner, Audit Manager, Concurring CPA⁹
- Zachary Halpern, Audit Senior¹⁰
- Barbara Halpern, Engagement Partner
- David Prunier, Audit Senior

⁹ Mr. Kanner was tasked with reviewing Barbara Halpern's work. (Halpern Tr., p. 64:23).

¹⁰ David Prunier testified that Mr. Halpern had no defined position but was there to "support everybody". (Prunier Tr., pp. 31:22-32:9). Mr. Prunier further stated that Mr. Halpern was ranked above the other associate auditors because it was a family business and as a result of the politics of the office. (Prunier Tr., pp. 31:9-12, 22-24; 32:5-9).

- Lois Amador, Audit Senior on the June 2009¹¹ audit, primarily involved in the December 2009 audit to give insight/coaching from prior audits if requested.
- John Parker, Audit Junior.
(Halpern Tr., pp. 56:13-15, 60:21-23, 63:5-8, 22-23, 127:3-4).

Role of David Prunier in the December 2009 Audit & Audit Experience

25. Mr. Prunier was hired by H&A in 2008. (Halpern Tr., p. 66:3-5). Prior to being hired by H&A, Ms. Halpern had established a relationship with Mr. Prunier. (Prunier Tr., p. 20:13-16). For example, before joining H&A as a full-time employee, Ms. Halpern had recommended Mr. Prunier for a job at another company. (Prunier Tr., p. 19:5-6). Mr. Prunier also worked as a contractor for Ms. Halpern performing various projects. (Prunier Tr., pp. 21:5-7, 23:7-8).

26. Mr. Prunier was not hired by H&A to be an auditor. He states in his testimony in the Division's investigation:

I was hired by [Barbara] Halpern to do basically no exact one thing, but I was going to be a Rent-A-Fin Op.¹² So we started slow with audits, and I learned some fund accounting, pitched in on tax returns and stuff like that...

(Prunier Tr., p. 23:7-10). (Footnote added.).

27. Mr. Prunier was not an auditor by trade and, specifically, prior to joining H&A, Mr. Prunier had not served as an auditor on any financial audits. (Prunier Tr., p. 19:23). Mr. Prunier had not audited a proprietary trading firm¹³ such as Lighthouse prior to the Lighthouse audit. (Prunier Tr., p. 40:20-23). In fact, prior to the December 2009 audit of Lighthouse, Mr. Prunier recalled working on only one other financial audit in which he served in the audit capacity.^{14,15} In that one audit he described his role as "lick and tick"¹⁶

¹¹ Lighthouse's fiscal year end previously was June 30. After the June 30, 2009 financial statements were completed Lighthouse switched to a December 31 fiscal year end.

¹² A "FinOp" stands for Financial and Operations Principal.

¹³ A "proprietary trading firm" is an entity that trades stocks, bonds, currencies, derivatives, and other financial instruments with the firm's own money, as opposed to depositors' money.

¹⁴ Versus providing documents to the auditors while *they* conducted the audit.

and “low level field work.” (Prunier Tr., pp. 24:19; 40:25). Mr. Prunier was not a CPA. At the time of the December 2009 audit, he was not familiar with what the AICPA was and, more specifically, was not familiar with the AICPA Audit & Accounting Guide for Brokers and Dealers in Securities (the “Guide”).¹⁷ (Prunier Tr., p. 65:20).

28. Despite his lack of training as an auditor, Mr. Prunier was in charge of auditing Lighthouse’s inventory (i.e., securities) and margin accounts,¹⁸ which are critical accounts to a broker dealer such as Lighthouse. Based on materials I have reviewed and Mr. Prunier’s testimony in this Proceeding, it is evident that Mr. Prunier did not have the competencies required to be tasked with auditing inventory and margin accounts for a broker dealer. H&A failed, therefore, to exercise appropriate due professional care in connection with the December 2009 audit and, more specifically, did not ensure that the audit was sufficiently planned and performed by qualified individuals, as required by GAAS.

Confirmation Procedures

H&A Disregards Information Learned from a Prior Audit

29. During H&A’s audit of the June 30, 2008 Lighthouse financial statements (the “June 2008 audit”), H&A sent a confirmation to Penson specifically requesting the following:

1. An itemized statement for each of Lighthouse’s accounts showing security positions and account balances at June 30, 2008.
2. Amount(s) held as a good faith deposit.
3. Schedule of commission receivable from Penson.
(Lighthouse Exhibit 12).

¹⁵ Mr. Prunier testified that to the extent he did work on the June 2009 Lighthouse audit, the work he performed was not significant enough for him to remember. (Prunier Tr., p. 29:10-11).

¹⁶ “Lick and tick” is a basic level audit process where one is simply tying out numbers. E.g., trace information from contracts to the bank statements and trace bills to the recorded expenses. (Prunier Tr., p. 25:4-7).

¹⁷ One can further question Mr. Prunier’s understanding of GAAS if he was not familiar with the AICPA.

¹⁸ These accounts are reported on Lighthouse’s financial statements as “Receivables from/due to brokers” and “Securities owned/sold”.

30. The confirmation control log which tracks confirmations received, included in H&A's workpapers for that audit, notes the following comment: "Next time get trade date statements not custody/settlement statements."¹⁹ (Lighthouse Exhibit 12, HALPERN00019362). Similarly, there was a handwritten note on a document request workpaper for the June 2008 audit that stated: "Next audit - send trade date statements or get broker access. Do not send settlement date/custody reports."²⁰ (Lighthouse Exhibit 13, HALPERN00019376).

31. It was evident therefore from at least as early as the June 2008 audit that H&A had concluded that the confirmation responses it had obtained in connection therewith from Penson (i.e., settlement date statements) were not providing sufficient appropriate audit evidence to validate inventory amounts reported by Lighthouse.²¹ This would have been known to H&A while planning the June 2009 audit²² and then, subsequently, for purposes of the December 2009 audit.²³

32. H&A failed, however, to modify its audit approach for the December 2009 audit, or to design and perform adequate alternate procedures in order to ensure that sufficient, appropriate audit evidence was obtained from Penson, (i.e., trade date information). Instead, during the December 2009 audit, Mr. Prunier sent a confirmation request to Penson and, similar to in prior audits, H&A received account statements from Penson that reported security values based on the settlement date, not trade date.

Inadequate Alternate Procedures

33. After reviewing the aforementioned statements received from Penson during the December 2009 audit, H&A noted the following in its workpapers: "[T]hese statements

¹⁹ Lois Amador wrote this note. (Halpern Tr., p. 135:23).

²⁰ Ibid. (Halpern Tr., pp. 136:22-137:1).

²¹ As noted in Lighthouse's footnotes to its financial statements, Lighthouse records security transactions in its financial statements based on trade date values. Therefore, if H&A receives settlement date information from Penson, this information is not sufficient audit evidence to validate amounts reported on Lighthouse's balance sheet.

²² Specifically, as noted above, Ms. Amador was aware that the auditors were to get trade date statements, not settlement date statements, or was to get broker access.

²³ Part of planning the audit, in accordance with GAAS, can include reviewing prior year's workpapers. (e.g., Lighthouse 13, HALPERN00019385).

were not used because they are on a settlement date basis. The client provided us with screen shots and trade date reports showing balances and positions.” (Lighthouse Exhibit 7, HALPERN0003289). (Emphasis added). A fundamental flaw with H&A’s 2009 audit was that it mistakenly relied on two separate screen shots provided to them by the client (one a schedule with purported trade date inventory and one a purported schedule of money balances which will be referred to herein as the Moneyline report) as information obtained from Penson.

34. Nonetheless, H&A obtained the screen shots from the client,²⁴ took them at face value (as will be discussed below), and performed no additional procedures surrounding the settlement date statements that they had received from Penson. H&A chose not to perform alternate procedures, even though audit team members were aware such procedures could have been performed and despite its own observations and conclusions from prior audits regarding the insufficiency of information received from Penson.

35. H&A failed to review and reconcile the settlement date information from the statements it had received directly from Penson with the screen shots (e.g., Inventory reports) obtained from the client.²⁵ Mr. Kanner testified that if there is a difference between settlement date information and trade date information, one could perform alternate procedures, such as 1) look forward to the trades that settled in the first portion of the subsequent period, 2) request from the broker a trade date set of statements, or 3) ask the client if the client could generate a reconciliation between trade date and settlement date balances. (Kanner Tr., p. 19:6-14). H&A failed to perform any such procedures.

36. Further, with respect to the reconciliation between trade date and settlement date balances, H&A also did not attempt to perform such reconciliation itself. Performing

²⁴ H&A mistakenly, in violation of GAAS, relied on information provided by the client as information obtained from Penson. There is insufficient documentation in H&A’s 2009 audit workpapers and insufficient testimony by H&A audit members in this Proceeding to confirm that the screen shots (also referred to as screen prints) were obtained from a Penson website or the Penson system.

²⁵ Mr. Prunier testified that he did not have discussions with Ms. Halpern as to how they could tie out settlement date balances to trade date balances. (Prunier Tr., p. 57:15-19).

such audit procedure which would have been appropriate once H&A believed it could not obtain the aforementioned information but H&A failed to do so (thereby in essence throwing up its arms and failing to seek additional required audit evidence). In fact H&A, in part, did not attempt to perform the appropriate procedures because Mr. Prunier thought it would take too much time to get the necessary information or perform the necessary audit procedures. (Prunier Tr., pp. 67:21-68:2, 13-19).

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37. As reflected above, Mr. Kanner appropriately recognized that if there is a difference between settlement date information and trade date information, one should perform alternate procedures to reconcile these amounts such as looking forward to the trades that settled in the first portion of the subsequent period. Similarly, the AICPA Brokers and Dealers in Securities Audit and Accounting Guide, noted below, specifically identifies, as a substantive procedure, the vouching of documentation supporting the subsequent settlement of open transactions. Despite this, Mr. Prunier testified that, in the context of performing audits, he was not familiar with that method (i.e., looking forward to the trades that settled in the first portion of the subsequent period) of testing account balances. (Prunier Tr., pp. 66:23-67:4).

38. Further, when Mr. Prunier was questioned regarding whether H&A obtained the January 2010 statements and, if so, would he have been able to assess whether there had been any pending trades that did not settle, he responded, “no.” (Prunier Tr., p. 67:21-25). According to Mr. Prunier, he did not have the time, he was new to the profession, and the audit team was having a “bandwidth of problems” with Lighthouse. (Prunier Tr., p. 68:2-11). This represents a complete disregard of the GAAS requirement to exercise due professional care. Mr. Prunier’s testimony in this matter, considered alongside his audit experience (or lack thereof), clearly indicates that he was not sufficiently trained²⁶ and was overwhelmed by the task, causing him to need to hand the work off to someone else. (Prunier Tr., pp. 68:2-11; 69:23-25, 74:25; 76:19-22).

²⁶ And therefore, lacking adequate technical training and proficiency as an auditor in violation of AU § 210, *Training and Proficiency of the Independent Auditor* (“AU 210”), as discussed below.

39. Ms. Halpern testified as follows with respect to a review of the January 2010 Penson statements:

Q: As part of an alternative procedure, isn't it customary to look at the subsequent month statement?

A: That would have been visible. **I cannot say that it was done. I don't see evidence of it.**

Q: But based on your knowledge in the practice, that's something that would have been done?

A: That would have been a good procedure to follow.

(Halpern Tr. , pp. 104:24-105:6). (Emphasis added.).

40. Also, with respect to subsequent statements, Mr. Kanner testified that it is fair to conclude that January 2010 Penson statements could have been available or were available before Ms. Halpern signed off on the December 2009 financials. (Kanner Tr., p. 28:2-7). Ms. Halpern similarly testified that the January 2010 Penson statements were probably ready or generated at the time H&A was performing its audit. There is no evidence that H&A requested and/or obtained the January 2010 Penson statements.²⁷ H&A did not reconcile open trades with the January 2010 trading statements in an effort to corroborate the accuracy of the trade date information provided to it by the client as of December 31, 2009.

Reconciliation between Account Information Provided by Penson and Account Information Provided by the Client

41. With respect to the apparent differences between information available from settlement date statements and amounts being reported on a trade date basis in the Company's balance sheets, Ms. Halpern testified that H&A's practice was to ask the client for a reconciliation between the settlement date and trade date balances. (Halpern Tr., p. 76:16-77:7). Ms. Halpern stated that she asked Mr. Krill to call Penson to obtain

²⁷ Ms. Halpern stated that had H&A obtained the January 2010 Penson statements such would have been in their workpapers. (Halpern Tr., pp. 102:22-103:1).

reports that would reconcile the settlement date balances to trade date balances but was told Penson could not produce such reports.²⁸ (Halpern Tr., p. 79:12-15).

42. H&A did not obtain a reconciliation between settlement date balances and trade date balances from either Penson or Richard Krill²⁹, nor did H&A perform the reconciliation themselves.³⁰ Instead, H&A simply accepted the trade date balances on the screen shot as being accurate and assumed that there was a trade that created the identified difference. (Halpern Tr., p. 100:21-23). Such approach to audit testing demonstrates how H&A failed to exercise due professional care with respect to these accounts, specifically by not obtaining the necessary information to reconcile known differences between trade date and settlement date amounts and, further, by failing to perform other necessary alternate procedures. This represents an example of H&A failing to obtain sufficient appropriate audit evidence as required by GAAS.

43. With respect to the margin account, Ms. Halpern testified that she asked Penson to reconcile the screen shot information provided by the client to the confirmation response received directly from Penson but Penson provided no such reconciliation. (Halpern Tr., p. 90:18-21). Such purported request by Ms. Halpern of Penson for this reconciliation is not documented in H&A's workpapers, as would be expected if H&A had complied with AU § 339, Audit Documentation ("AU 339").

44. H&A had information in its workpapers indicating that for cash/margin account #11981727, the screen shot had a positive balance of \$2.2 million, whereas the Penson settlement date statement had a negative balance of \$22,000. (e.g., HALPERN00003266-68). Ms. Halpern testified that H&A was aware that the information on the Moneyline report did not reconcile to the account statements provided by Penson³¹ yet failed to perform the necessary audit procedures to reconcile these differences. This represents

²⁸ Ms. Halpern testified that she was told Penson could not go back and produce historical pending trade reports. (Halpern Tr., p. 80).

²⁹ Lighthouse "FinOp".

³⁰ Mr. Prunier testified that there was no audit work performed to reconcile the discrepancies between trade date balances and settlement date balances.

³¹ Halpern Tr., p. 99:2-15.

another example of H&A failing to exercise due professional care and obtain sufficient appropriate audit evidence as required by GAAS.

Trade Date Information from Penson

45. There is nothing documented in H&A's workpapers, nor is there testimony in this investigation by any current or former H&A auditor who worked on the December 2009 audit, as to why Penson was purportedly unable to generate, and provide to the auditors directly, historical trade date statements or information. In fact, when asked about such during the Division's investigation, Ms. Halpern testified that she assumed Penson could generate trade date reports³² H&A chose, however, in connection with the December 2009 audit, to not obtain trade date information directly from Penson.

Generating the Screen Shots

46. Mr. Prunier stated the following with respect to the screen shots obtained by H&A in connection with the December 2009 audit that purportedly reflected trade date information:

...I was in the room when at the last minute we received screen shots. Barbara was with me. The client sat down at the broker terminal,³³ went to the date and printed out whatever it was, and Barbara accepted it. (Prunier Tr., p. 33:4-7). (Footnote added.). (Emphasis added.).

47. Mr. Prunier testified that the client, as opposed to anyone from the audit team, sat at the Lighthouse computer where a Penson website was purportedly accessed, went to the date, and printed a screen shot of "whatever it was". (Prunier Tr., p. 33:6-7). Mr. Prunier also testified that, in the room at the time the screen shots were obtained were he, Nancy Cooper,³⁴ and Barbara Halpern,³⁵ which would lead one to conclude based on his testimony that the "client" sat at the computer and that it was Ms. Cooper that printed the

³² Halpern Tr., p. 80:12-13.

³³ Mr. Prunier referred to where Penson information was accessed as the "broker terminal" or the "Penson terminal." However, it is my understanding that it was not per se a Penson/broker terminal that was used to obtain the screenshots but, instead, a Lighthouse computer that purportedly was used to access a Penson website.

³⁴ Nancy Cooper was an outside consultant used by Lighthouse. (Cooper Tr., p. 9:24).

³⁵ Prunier Tr., pp. 51:20-22; 52:3.

screen shots.³⁶ Ms. Cooper, however, testified that she may have only met Ms. Halpern once or twice³⁷ and has no recollection of logging onto the Penson website and printing information from the Penson database. (Cooper Tr., pp. 29:17-30:3). Additionally, Ms. Cooper did not recall having direct access to a work station or a computer that was able to access information directly from Penson. (Cooper Tr., p. 35:7-8).

48. Further, contrary to Mr. Prunier's testimony, Ms. Halpern testified that Mr. Krill provided the screen shots. (Halpern Tr., p. 90:19-20). She further expressed that Mr. Prunier was standing next to Mr. Krill in Lighthouse's office when Mr. Krill printed out the screen shots. (Halpern Tr., p. 107:10-12).³⁸ The testimony, therefore, is at best unclear as to how the screen shots were obtained, which further reflects upon H&A's failure to obtain and reflect in its workpapers sufficient and appropriate audit evidence to support its audit opinion.

49. Indeed, H&A failed to document any relevant information in its workpapers as to *who* generated the screen shots and/or *how* they were generated. Specifically, there is no information apparent in H&A's workpapers reflecting H&A's understanding as to the process that was performed to access the account balances, how the screen shots were generated, and/or any controls that were in place or adhered to with respect to how the output from the computer purportedly accessing a Penson website was generated and/or obtained. Accordingly, beyond violations of AU § 326, *Audit Evidence* ("AU 326") (which require the auditor to obtain sufficient appropriate audit evidence), H&A violated AU 339 by failing to provide sufficient detail in its workpapers to afford reviewers of such workpapers a clear understanding of any purported work performed.

³⁶ Mr. Krill testified that he did not believe anyone from H&A had access to the Penson system and therefore, if H&A obtained screen shots from the Penson system they would have been provided by someone at Lighthouse. (Krill Tr., March 26, 2014, p. 29:4-20). Mr. Krill further testified that the only other person he believes would have provided the information was Robert Bradley, Lighthouse Chief Operations Officer, (Krill Tr., March 26, 2014, p. 30:4-11) but, Mr. Bradley was supposedly not in the room when the screen shots were obtained.

³⁷ Ms. Cooper testified that her day-to-day responsibility was not to help with the audit. (Cooper Tr., p. 52:23-24).

³⁸ Further, Mr. Krill has no memory of obtaining the screen shots and has no recollection of the screen shot issue for the 2009 audit but testified he assumed he would have provided help in obtaining that information. (Krill Tr., March 26, 2014, pp. 21:20-22:22).

50. Additionally, and on a related note, Mr. Prunier's description of the screen shots as "whatever it was" demonstrates the lack of understanding on the part of those on the engagement team charged with performing audit procedures as to what information was purportedly received from the Penson website, supposedly, as audit evidence. Had H&A adequately inquired into the query used to generate the screen shot for the margin account at Penson they would have learned the query requested only amounts due from Penson and not amounts due to Penson. To that end, Ms. Halpern testified that she was not aware of the exact query that was used to generate the Moneyline report. (Halpern Tr., p. 113:11-15). Such failures demonstrate H&A's lack of due professional care and its failure to obtain audit documentation sufficient to render an opinion.

Penson System

51. Aside from the audit violations noted above, there are a number of additional violations with respect to H&A accepting, as purported audit evidence, screen shots from the computer terminal used to purportedly access a Penson website and relying on such in forming its audit opinions. First, aside from not being documented in its workpapers in violation of AU 339, as noted above, no testimony has been provided demonstrating that H&A understood the process that was performed to access the account balances, how the screen shots were generated, and/or whether any controls were in place or adhered to with respect to how the output from the computer terminal that purportedly accessed a Penson website was generated or obtained. In fact, beyond the statements already excerpted above, Mr. Prunier testified that he did not hear anybody give instructions about how to obtain the screen shots from the computer terminal.³⁹ (Prunier Tr., p. 54:14).

52. Second, both Lighthouse employees and H&A were aware of difficulties in obtaining proper documentation from the Penson system. (Krill Tr., March 26, 2014, pp. 15:13-15; 16:12-15; Lighthouse Exhibit 20; Halpern Tr., p. 80:15-18). Specifically, Mr.

³⁹ Aside from Mr. Prunier, Mr. Krill also testified, for example, that the Penson system was not as user friendly as Goldman and that information provided by Penson would be less clear than Goldman reports. (Krill Tr., September 29, 2014, p. 49:11-12).

Krill testified that there were issues in getting statements off of Penson's website⁴⁰ and, prior to the December 2009 audit, Ms. Halpern had encountered problems with Penson in her role as a "FinOp" and during other audits. (Halpern Tr., pp. 81:23-82:4).

53. Third, prior to forming H&A, while serving as a FinOp, Ms. Halpern had been involved with at least two firms for which a net capital deficiency had occurred. (Halpern Tr., pp. 25:1-12; 26:1-25). With respect to one of those firms, Ms. Halpern testified that the information she obtained from the clearing firm was incomplete. Specifically, the clearing firm failed to provide **negative** balance information for an account. (Halpern Tr., pp. 26:14-27:1; 28:13-15). Therefore, despite the fact that Ms. Halpern had prior experience obtaining inadequate information from clearing firms, she failed to exercise the appropriate level of due professional care to ensure that the information obtained from the client (i.e. screen shots) was sufficient and appropriate audit evidence.

Information Included in H&A Workpapers Ignored

54. In addition to the violations discussed above, H&A completely disregarded information that was available to it, and included in its workpapers, during the course of its December 2009 audit.

55. For example, although individuals at H&A testified that the settlement date statements should not have been used to confirm December 2009 balances (which is why H&A used screen shots purportedly from a Penson website), there is evidence that Mr. Prunier tried to tie data from the screen shot (i.e., the Moneyline report) to the settlement date statements (e.g., HALPERN00003229, HALPERN00003296). During this "ticking and tying"⁴¹ exercise, H&A 1) tied-out wrong amounts (likely because of Mr. Prunier's inexperience as an auditor) and 2) failed to follow-up regarding amounts that could not be tied-out.

⁴⁰ Krill Tr., March 26, 2014, p. 15:13-15.

⁴¹ "Ticking and tying" refers to the basic audit procedure of agreeing one amount to another.

56. As an example, Mr. Prunier traced an amount reflected on the Moneyline report to the wrong amount on the December 31, 2009 Penson account statement. Had H&A performed audit procedures in a competent fashion and exercised due professional care (either while performing the ticking and tying procedure or while performing the detailed review of the audit workpapers), H&A would have seen that there was a negative margin amount reported on the Penson account statement which was not reflected on the Moneyline report. Mr. Prunier acknowledged during the Division's investigation that he had tied-out the wrong balance, and that it was an error on his part. (Prunier Tr., p. 74:25-75:4). Ms. Halpern, however, signed off on the purported audit testing reflected on the Moneyline report, indicating that she agreed with the work that had been performed,⁴² and thus failed to catch this error.

57. Additionally, with respect to this audit failure, Mr. Prunier stated that he was not trained to look at the negative margin balances because he had never worked with margin accounts before and there was no conversation with any team member as to how to confirm such margin accounts. (Prunier Tr., pp. 75:13-14; 76). The existence of a negative margin amount on the Penson-provided account statement, but not on the Moneyline report, should have been a red flag to H&A that all amounts may not have been reflected on the screen shots and/or that the amounts being compared were not like quantities.

58. Further, based on the settlement date statements as of December 31, 2009 that were obtained by H&A, reviewed, and included in its workpapers,^{43,44} there was information available to H&A which made, or should have made, them aware that the Moneyline report⁴⁵ did not include numerous foreign currency amounts that were reported on the Penson-settlement date-statements. For instance, H&A's workpapers reflect that there were negative balances in Hong Kong Dollar, Indonesian Rupiah, New Zealand Dollar, and Swedish Krona accounts. (Lighthouse Exhibit 7,

⁴² HALPERN00003229; Halpern Tr., p. 104:3-9.

⁴³ Lighthouse Exhibit 7, HALPERN00003266-7.

⁴⁴ Information included in an auditor's workpapers is supposed to be the principal support for the audit opinion.

⁴⁵ Lighthouse Exhibit 7, HALPERN00003229.

HALPERN00003266-7). These currency accounts were not reflected on the Moneyline report. (Lighthouse Exhibit 7, HALPERN00003229).

59. This information, which was known, or should have been known, and available to H&A, should have been a red flag as to the reliability and completeness of the screen shots. Once again, H&A failed to apply due care and/or professional skepticism and to conduct its audit in compliance with GAAS. Once the screen shot was available, H&A simply tied balances from the screen shot report to the account statements for balances that agreed (taking the screen shot information at face value) and ignored the Penson-provided statements for anything that did not agree to the screen shot.

H&A Ignored Knowledge of Other Penson Trade-Date Information

60. During its June 2009 audit, H&A had obtained market value information, for certain accounts, based on the trade date (e.g., Lighthouse Exhibit 11, HAL025754). One specific document reflecting trade date information, included in H&A's June 2009 workpapers, *included* a footer labeled "online.penson.com" unlike the purported screen shots. Ms. Amador was the individual who obtained this trade date report and Ms. Halpern signed-off as the reviewer. (Prunier Tr., p. 87:7-9).

61. The June 2009 workpapers were available during the December 2009 audit. (Prunier Tr., p. 86:8). Specifically in light of Mr. Prunier being new to the field of auditing and new to the Lighthouse audit,⁴⁶ part of H&A's December 2009 audit procedures should have included reviewing prior audit workpapers, as reflected in AU § 311, *Planning and Supervision* ("AU 311"), discussed below. H&A however, failed to assess whether this same type of information (i.e., trade date reports) was available for the various margin or inventory accounts it was attempting to test during the 2009 audit.

62. I have seen no evidence that H&A questioned the validity of the information provided by the screen shots, despite the fact that 1) six months prior, Penson reports that were obtained by H&A had trade date (and settlement date) information reflected on

⁴⁶ Prunier Tr., pp. 19:12-14; 40:20-23; 65:9-12, 17-20; 68:2-5.

them and 2) the format of the screen shot obtained for the December 2009 audit was different than what was used to perform the June 2009 audit. H&A failed to exercise professional skepticism and, thereby, due professional care, by failing to challenge the information that was provided in the screen shot based on all that is discussed above and, specifically, information obtained during prior audits.

Failure to Understand Screen Shots and Verify Screen Shots were Complete and Accurate

63. Mr. Prunier testified that he was confused by the Penson statements⁴⁷ and, therefore, unable to complete the inventory aspect of the December 2009 audit, causing him to pass the work to Ms. Halpern to perform that part of the audit.⁴⁸ (Prunier Tr., pp. 33:14-15, 77:23-25; 78:25). Specifically, based on Mr. Prunier's testimony, the purported audit procedures surrounding the screen shots were performed by Ms. Halpern and not Mr. Prunier. For example, when Mr. Prunier was asked how he knew that the screen shots included every account that he needed to confirm, he responded:

I did not. I don't know how much more I can say about these screen shots, other than [Ms. Halpern] accepted statements that were from a third party terminal⁴⁹ that matched the balance sheet. I got my items ticked off, and I was told that was satisfactory and to move on.

(Prunier Tr., pp. 59:22-60:6). (Emphasis added).
(Footnote added.).

64. Further corroborating that he performed no meaningful audit procedures pertaining to the screen shots, Mr. Prunier confirmed in his testimony in the Division's investigation that he used the screen shots as purported audit evidence yet had no basis or understanding as to the appropriateness of the screen shots other than his assertion that **Ms. Halpern told him to use the screen shots** instead of the settlement date statements.

⁴⁷ Prunier Tr., p. 80:12-13.

⁴⁸ Mr., Prunier has described it as "escalating" it to Ms. Halpern.

⁴⁹ Again, it is my understanding that it was not a third party terminal that was used to obtain the screenshots but, instead, a Lighthouse computer. (Krill Tr., pp. 30:18-31:1).

(Prunier Tr., p. 61:6-9). Ms. Halpern testified that H&A checked the prices⁵⁰ of the securities positions but did nothing else to confirm the accuracy of the screen shots. (Halpern Tr., pp. 96:23-97:2). Ms. Halpern further stated that H&A performed no audit procedures to determine that the screen shots included all proprietary accounts maintained by Lighthouse. (Halpern Tr., p. 117:12-18).

65. The aforementioned testimony by Mr. Prunier surrounding his discomfort with auditing Lighthouse's proprietary accounts contradict the sign-offs noted on H&A's workpapers. The proprietary account workpapers, including the screen shots,⁵¹ were signed-off by Mr. Prunier, apparently evidencing that he was the primary person responsible for testing the trading account⁵² and that Ms. Halpern was the reviewer.⁵³

66. Since auditing the proprietary accounts became the responsibility of Ms. Halpern, (i.e., based on Mr. Prunier's testimony), it would have been reasonable and appropriate for an audit team member to have performed a detailed review of the work Ms. Halpern performed. This did not occur. It is evident that the only other person on the December 2009 audit that may have had the technical ability to review Ms. Halpern's work, in detail, was Mr. Kanner, yet he explicitly stated that he did not review anything in detail, including proprietary and/or the margin accounts for the December 2009 audit of Lighthouse. (Kanner Tr., 63:19-64:1, 16-19).

Timing of the Audit Procedures

67. Mr. Prunier testified that the screen shots were received "last minute,"⁵⁴ offering that there was a time crunch to complete the audit. This "last minute" rush, coupled with the knowledge that "the client was out of control,"⁵⁵ heightened the risk of material misstatement. Yet while conducting its audit, H&A failed to exercise due professional care, exacerbated by its failure to adequately corroborate audit evidence.

⁵⁰ Checking the prices of securities was not a sufficient audit procedure to confirm that all foreign currency transactions were properly reflected on the screen shots.

⁵¹ Lighthouse Exhibit 7, HALPERN00003231-43.

⁵² Kanner Tr., p. 64:16-23.

⁵³ Ibid.

⁵⁴ Prunier, p. 94:20-22.

⁵⁵ Prunier, p. 43:1.

68. Additionally with respect to the rush to have the audit completed and the failure of H&A to exercise due professional care, Mr. Prunier stated:

Once [the screen shots] were accepted, keep in mind I'm a new employee, I'm working with the owner. The owner accepted something, and we're having a struggle to produce this on time. You accept it.

(Prunier Tr., p. 60:15-18).

69. As further evidence of H&A shortcutting procedures apparently in part as a result of a lack of sufficient time to complete the audit, discovery indicates H&A did consider requesting an extension for the audit, but since Lighthouse had received three extensions in connection with its prior audit (also performed by H&A), FINRA communicated there would be no additional extensions. (Prunier Tr., pp. 71:21-72:12; Halpern Tr., pp. 143:8-14; 144:8-16).

Tone of the Audit

70. Mr. Prunier stated that the audit was hectic at the end. (Prunier Tr., p. 39:10-11). Ms. Halpern also testified that personnel at Lighthouse were very tied-up with a SEC examination, were not answering H&A's requests and were giving H&A a "hard time". (Halpern Tr., p. 108:16-21). In violation of due professional care, H&A failed to consider the overall tone of the audit (and, thereby, the tone of management and the client) when assessing whether the procedures it had performed and the evidence it had obtained was adequate and appropriate.

Reliance on Lighthouse Employees

71. Discovery also indicates that the audit team raised questions as to the reliability of information provided by Lighthouse in connection with the December 2009 audit. Mr. Prunier testified that he "learned not to ask Richard Krill for anything" because whatever he received from Mr. Krill was "incoherent" and "inaccurate 50% of the time" and therefore Mr. Prunier had to utilize Ms. Cooper. (Prunier Tr., p. 43:11-12; 44:1-2; 45:14-16).

72. Additional evidence reflects that H&A questioned the competency of Mr. Krill in the following testimony of Mr. Prunier:

During the course of the audit, [Nancy Cooper] cleaned up several messed up accounts, and our numbers changed, and that was a moving target, and she fixed a lot of stuff. She helped us reconcile items that we couldn't even use what Krill gave us ...

(Prunier Tr., p. 44:16-20).

73. Further, Ms. Halpern indicated that she believed the growth of Lighthouse to be overwhelming for Mr. Krill. (Halpern Tr., p. 57:15-18). This observation should have impacted the risk assessment required to be performed by H&A under GAAS and should have resulted in additional scrutiny of the veracity of the information provided by the client during the December 2009 audit (e.g., the screen shots).

Net Capital Calculation

74. Ms. Halpern testified that she “checks” net capital computations, at least annually, as part of the audit procedures she performs for broker dealers. (Halpern Tr., pp. 46:25 – 47:15). Specific to H&A’s 2009 audit of Lighthouse, Ms. Halpern stated that H&A recalculated the haircuts⁵⁶ included in the December 31, 2009 net capital computation based on known security positions. (Halpern Tr., p. 121:1-11). Ms. Halpern explained that the process H&A undertook to calculate these haircuts included, in part, reviewing Lighthouse’s long and short security positions and assessing which position was greater. Ms. Halpern testified that the long security positions were the greater of the two positions (which is supported by discovery). (Halpern Tr., p. 121:12-16).

75. This testimony by Ms. Halpern (i.e., that the long security positions were the greater of the two positions) supports my conclusion that H&A failed to exercise due professional care when recalculating (i.e., “checking”) the haircut that was included in Lighthouse’s December 31, 2009 net capital computation. Specifically, such a

⁵⁶ Mr. Krill testified that he provided H&A with, at minimum, a hard copy of the haircut calculation. (Krill Tr., September 29, 2014, pp. 136:12-137:3). He could not recall if he also sent this information to H&A electronically. (Krill Tr., September 29, 2014, pp. 136: 20-137:3).

conclusion by H&A evidences its failure to identify an error in the haircut calculation in that, instead of the haircut calculation utilizing the greater of the two amounts (between the long security positions and short security positions), the calculation erroneously utilized the lesser amount of the two security positions.⁵⁷ (see Lighthouse Exhibit 44).

76. This error would have been apparent to anyone that reviewed the haircut calculation, yet H&A did not identify such an error in the calculation. Accordingly, H&A either chose to ignore, or failed to identify, this error.⁵⁸ This error resulted in an understatement of the haircut used in the net capital computation.

XI. SUMMARY OF RELEVANT GAAS AND H&A'S VIOLATIONS THEREOF

77. GAAS represent the rules and guidelines by which an audit must be planned, performed, and reported on, and are, therefore, a measure of audit quality and the objectives to be achieved in an audit. [AU § 150, *Generally Accepted Auditing Standards* ("AU 150"), .01]. Auditors have a responsibility to their profession to comply with the standards accepted by their fellow practitioners (i.e., GAAS). Accordingly, the AICPA requires auditors to comply with a Code of Professional Conduct, which provides rules and guidance in support of the professional standards (GAAS), and provides a basis for their enforcement. (AU 110.10) Rule 202 of the AICPA's Code of Professional Conduct requires auditors to adhere to and conduct audit and review services in accordance with the standards promulgated by the Auditing Standards Board (the senior technical body of the AICPA designated to issue pronouncements on auditing matters). [AU § 100, *Statements on Auditing Standards – Introduction* ("AU 100")]

78. There are ten generally accepted auditing standards that have been approved and adopted by the membership of the Auditing Standards Board of the AICPA and which must be adhered to throughout the conduct of all audits. They have been categorized into

⁵⁷ This error resulted in the haircut being understated.

⁵⁸ Aside from the error in the haircut calculation resulting from the incorrect number being used for the "greater" security position, this haircut calculation was also flawed due to the misstated security positions discussed in this Statement above.

general standards, standards of fieldwork, and standards of reporting, and are listed below, as such existed as of December 31, 2009:

General Standards

1. The auditor must have adequate technical training and proficiency to perform the audit.
2. The auditor must maintain independence in mental attitude in all matters relating to the audit.
3. The auditor must exercise due professional care in the performance of the audit and the preparation of the report.

Standards of Field Work

1. The auditor must adequately plan the work and must properly supervise any assistants.
2. The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.
3. The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.

Standards of Reporting

1. The auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The auditor must identify in the auditor's report circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.

3. When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.
4. The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons therefor [sic] in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.

(AU 150.02). (Footnotes omitted.).

79. As noted, H&A was required under GAAS to plan and perform an audit that provided reasonable assurance that its audit procedures would detect material misstatements included in Lighthouse's financial statements. H&A's audit failed, however, to detect material misstatements that existed within Lighthouse's December 31, 2009 financial statements. The overarching and consistent deficiencies in H&A's 2009 audit was H&A's failure to (1) staff the engagement with trained and proficient auditors, (2) maintain independence in mental attitude throughout the audit and (3) exercise due professional care and professional skepticism. These overarching deficiencies resulted in H&A's failures to (1) critically assess and objectively evaluate certain relevant audit evidence that it had obtained and was aware of, (2) obtain (or even consider to obtain) certain competent audit evidence in support of its audit opinion, and (3) appropriately respond to the presence of inherent risks for which consideration is required by GAAS.

80. The violations discussed in this section demonstrate H&A's disregard of its professional obligations under GAAS. The violations were not limited to one particular GAAS standard or to one particular category of GAAS standards. The failures occurred within the general auditing standards, the fieldwork standards (including planning), and ultimately, the reporting stage of the audit.

81. Relevant to my assessment of H&A's audit were the requirements set forth within the following specific standards, each of which H&A failed to satisfy, in addition to those standards cited throughout this Statement:

- AU 210
- AU § 230, *Due Professional Care in the Performance of Work* ("AU 230")
- AU 311
- AU 312
- AU § 318, *Performing Audit Procedures in Response to Assessed Risk and Evaluating the Audit Evidence Obtained* ("AU 318")
- AU 326
- AU § 330, *The Confirmation Process* ("AU 330")
- AU § 333, *Management Representations* ("AU 333")
- AU 339
- Standards of reporting, including AU § 410, *Adherence to Generally Accepted Accounting Principles* ("AU 410") and AU 411

82. The following is a discussion of the obligations set forth within the aforementioned standards.

AU 210, Training and Proficiency of the Independent Auditor

83. The first general standard requires that the audit be performed by a person or persons having adequate technical training and proficiency as an auditor. (AU 210.01). More specifically, this standard recognizes that however capable a person may be in other fields, including business and finance, he cannot meet the requirements of the auditing standards without proper education and experience in the field of auditing. (AU 210.02).

84. H&A failed to assign audit personnel to the December 2009 audit who had adequate technical training and were proficient as an auditor.

AU 230, Due Professional Care in the Performance of Work

85. GAAS requires that “[d]ue professional care is to be exercised in the planning and performance of the audit and the preparation of the report.” (AU 230.01). (Footnote omitted.). AU 230 states, in relevant part:

Due professional care imposes a responsibility upon each professional within an independent auditor's organization to observe the standards of field work and reporting. (AU 230.02).

86. According to AU 230, “[a]n auditor should possess ‘the degree of skill commonly possessed’ by other auditors and should exercise it with ‘reasonable care and diligence’ (that is, with due professional care).” (AU 230.05). AU 230 also states, in relevant part:

Auditors should be assigned to tasks and supervised commensurate with their level of knowledge, skill, and ability so that they can evaluate the audit evidence they are examining. The auditor with final responsibility for the engagement should know, at a minimum, the relevant professional accounting and auditing standards and should be knowledgeable about the client. The auditor with final responsibility is responsible for the assignment of tasks to, and supervision of, assistants. (AU 230.06). (Footnotes omitted.). (Emphasis added.).

87. The concept of “due professional care” requires an auditor to, “exercise professional skepticism.” (AU 230.07). As provided within AU 230:

Professional skepticism is an attitude that includes a questioning mind and a **critical assessment of audit evidence.** The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and **objective evaluation of evidence.** (AU 230.07). (Emphasis added.).

88. Further, AU 230 provides:

Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process. (AU 230.08).

89. Contained in this Statement are numerous examples of H&A failing to exercise due professional care while planning and performing its December 2009 audit.

AU 311, Planning and Supervision

90. AU 311 provides the pertinent guidance on the need for an audit to be adequately planned and for assistants on an audit engagement to be appropriately supervised. (AU 311.01). Audit planning involves developing an overall strategy for the expected conduct and scope of the audit.⁵⁹

91. Planning also requires an auditor to obtain knowledge of the entity's business. (AU 311.03). Working papers from prior years may contain useful information about the nature of the business, organizational structure, operating characteristics, and transactions that may require special consideration. In my experience, other sources an auditor may consult include AICPA accounting and audit guides, industry publications, financial statements of other entities in the industry, textbooks, periodicals, and individuals knowledgeable about the industry.

92. AU 311 discusses supervision as follows:

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 issues encountered, reviewing the work performed, and dealing with differences of opinion among firm

⁵⁹ AU 311.03.

personnel. The extent of supervision appropriate in a given instance depends on many factors, including the complexity of the subject matter and the **qualifications of persons performing the work, including knowledge of the client's business and industry.** (AU 311.28). (Emphasis added.).

93. As suggested in the excerpt above, AU 311 requires that the work performed by each assistant, including the audit documentation, should be reviewed to determine whether it was adequately performed and documented and to evaluate the results, relative to the conclusions to be presented in the auditor's report. (AU 311.31).

AU 312, Audit Risk and Materiality in Conducting an Audit

94. AU 312 provides guidance on the auditor's consideration of audit risk and materiality when performing an audit of financial statements in accordance with GAAS. Audit risk is defined as the risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated.⁶⁰ (AU 312.02).

95. AU 312 provides, in relevant part:

Audit risk and materiality, among other matters, need to be considered together in designing the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures. (AU 312.01).

96. Regarding materiality, an assessment of the risk of material misstatement should be made during the planning phase of the audit, the determination of which should then impact the nature, timing, and extent of audit procedures to be performed. (inter alia, AU 312.16).

⁶⁰ Audit risk consists of inherent risk, control risk, and detection risk. "*Inherent risk* is the susceptibility of an assertion to a material misstatement, assuming that there are no related controls." *Control risk* is the risk that a material misstatement that could occur in a relevant assertion and that could be material, either individually or when aggregated with other misstatements, "will not be prevented or detected on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity's objectives relevant to preparation of the entity's financial statements." *Detection risk* is the risk that the auditor will not detect a material misstatement that exists in an assertion. "Detection risk is a function of the effectiveness of an audit procedure and of its application by the auditor." (AU 312.27).

97. AU 312 further states:

The auditor needs to consider audit risk at the individual account-balance or class-of-transactions level because such consideration directly assists in determining the scope of auditing procedures for the balance or class and related assertions. The auditor should seek to restrict audit risk at the individual balance or class level in such a way that will enable him or her, at the completion of the audit, to express an opinion on the financial statements taken as a whole at an appropriately low level of audit risk. (AU 312.26).

98. H&A failed to appropriately consider audit risk during its 2009 audit by not appropriately designing audit procedures and evaluating the results of audit procedures, in light of the audit team's knowledge of (1) deficiencies with respect to information provided by Penson Financial Services ("Penson"),⁶¹ (2) the questionable competency of Lighthouse management (as noted by Mr. Prunier), (3) delays in obtaining audit evidence and (4) a rush to complete the audit.

AU 326, Audit Evidence

99. Within the fieldwork standards of GAAS, auditors are required to obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for the audit opinion. (AU 326.01). Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. It includes audit evidence obtained from audit procedures performed during the course of the audit and may include audit evidence obtained from previous audits. (AU 326.02).

100. "Sufficiency" is the measure of the quantity of audit evidence. "Appropriateness" is the measure of the quality of audit evidence - that is, its relevance and its reliability in providing support for, or detecting misstatements in, the classes of transactions, account balances, and disclosures and related assertions. The auditor should consider the

⁶¹ Penson is one of the clearing brokers utilized by Lighthouse.

sufficiency and appropriateness of audit evidence to be obtained when assessing risks and **designing further audit procedures**. (AU 326.06).

101. As noted in AU 326, the reliability of audit evidence is influenced by its source and by its nature and is dependent on the individual **circumstances under which it is obtained**. When audit evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, audit evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. (AU 326.08). AU 326 identifies a number of concepts about the reliability of audit evidence, including, in part:

- Audit evidence is **more reliable** when it's obtained from knowledgeable independent sources outside the entity.
- Audit evidence obtained directly by the auditor is **more reliable** than audit evidence obtained indirectly.

(AU 326.08). (Emphasis added.).

102. AU 326 also states that when information cannot be obtained from an independent, external source and therefore is obtained from the client, the auditor is required to confirm the accuracy and completeness of the information provided by the client. Specifically, AU 326 states:

When information produced by the entity is used by the auditor to perform **further** audit procedures, the auditor should obtain audit evidence about the accuracy and completeness of the information. In order for the auditor to obtain reliable audit evidence, the information upon which the audit procedures are based needs to be sufficiently complete and accurate. (AU 326.10). (Footnote omitted.). (Emphasis added.).

103. AU 326 further provides the auditor should use professional judgment and should exercise professional skepticism in evaluating the quality of audit evidence, and thus its sufficiency and appropriateness, to support the audit opinion. (AU 326.13).

104. Procedures performed by H&A in connection with its December 2009 audit indicate that H&A failed to exercise professional skepticism by failing to analyze the validity, sufficiency, and appropriateness of audit evidence obtained in connection therewith and, thereby, failed to obtain sufficient appropriate audit evidence to support its ultimate audit opinion, as required by AU 326.

AU 318, Performing Audit Procedures in Response to Assessed Risk and Evaluating the Audit Evidence Obtained

105. AU 318, in part, provides guidance to the auditor in evaluating whether risk assessments⁶² remain appropriate and to conclude whether **sufficient appropriate audit evidence has been obtained**. (AU 318.01-.02). What constitutes sufficient appropriate audit evidence is influenced by, in part, the **source and reliability of available information** and an understanding of the entity and its environment, including its internal control. (AU 318.75).

106. As noted above, H&A failed to obtain sufficient appropriate audit evidence to support its ultimate audit opinion. Further, H&A failed to assess the source and reliability of information available to it.

AU 330, The Confirmation Process

107. Confirmation is the process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions. The process includes, in part, evaluating the information, or lack thereof, provided by the third party about the audit objectives, including the reliability of that information. (AU 330.04).

108. The auditor should exercise an appropriate level of professional skepticism throughout the confirmation process. Professional skepticism is important in designing the confirmation request, performing the confirmation procedures, and **evaluating the**

⁶² Referring to the process of evaluating, and the identification of, potential risks that may be involved in the audit.

results of the confirmation procedures. (AU 330.15). When the auditor concludes that evidence provided by confirmations alone is not sufficient, additional, alternate procedures should be performed. (AU 330.09).

109. After performing any alternate procedures, the auditor should evaluate the combined audit evidence provided by the confirmations and the alternate procedures to determine whether sufficient audit evidence has been obtained about all the applicable financial statement assertions which the confirmations intended to satisfy. In performing that evaluation, the auditor should consider (a) the reliability of the confirmations and alternate procedures; (b) the nature of any exceptions, including the implications, both quantitative and qualitative, of those exceptions; (c) the audit evidence provided by other procedures; and (d) whether additional audit evidence is needed. If the combined audit evidence provided by the confirmations, alternate procedures, and other procedures is not sufficient, the auditor should request additional confirmations or perform other tests. (AU 330.33). During the December 2009 audit, H&A failed to perform alternate procedures to reconcile trade date and settlement date discrepancies of which it was aware.

Practice Alert 2003-01

110. American Institute of Certified Public Accountants (“AICPA”) Practice Alert 2003-01 (“Practice Alert 2003-01”) was released in January 2003 in an effort to communicate additional guidance to practitioners with respect to the use of audit confirmations. Pertaining to the discussion of the audit confirmation process, Practice Alert 2003-01 states:

...confirmation is the process of obtaining and evaluating a direct communication from a third party in response to a request for a particular item affecting financial statement assertions...**an on-line inquiry of the third-party’s database does not constitute a response.** (Emphasis added.).

111. According to Practice Alert 2003-01, the basis for the determination that an on-line inquiry of the third-party's database does not constitute a response is because there is no communication at all with the third party respondent.

112. During its December 2009 audit, H&A failed to perform sufficient additional (alternate) procedures with respect to a particular response provided by Penson to H&A's confirmation request pertaining to receivables from/due to brokers and inventory (i.e., securities owned) balances. Specifically, in violation of GAAS, H&A failed to (1) adequately assess audit evidence that it had obtained from the client, Lighthouse, and (2) perform sufficient and appropriate alternate procedures.

AU 333 - Management Representations

113. AU 333 provides that during an audit, management makes representations to the auditor in response to specific inquiries or through the financial statements. Continuing, "[s]uch representations from management are part of the audit evidence the independent auditor obtains, but they are **not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.**" (AU 333.02). (Emphasis added.)

114. As noted earlier herein, during its December 2009 audit, H&A simply accepted information provided by Lighthouse management and failed to perform the necessary audit procedures to verify the accuracy and completeness of that information.

AU 339, Audit Documentation

115. AU 339 provides guidance on audit documentation. This standard states that the auditor must prepare audit documentation in connection with each engagement in sufficient detail to provide a clear understanding of the work performed, the audit evidence obtained and its source, and the conclusions reached. Audit documentation provides the principal support for the representation in the auditor's report that the auditor performed the audit in accordance with GAAS. (AU 339.03).

116. Additionally, audit documentation serves to assist auditors who are new to an engagement (e.g., in this Proceeding, Mr. Prunier) by allowing them to review prior year documentation to understand the work performed to aid in planning and performing the current engagement and to assist quality control reviewers who review such to understand how the engagement team reached significant conclusions in connection with an audit and whether there is adequate evidential support for those conclusions. (AU 339.08). AU 339 specifies that, in documenting the nature, timing, and extent of audit procedures performed, the auditor should record who performed the audit work and the date such work was completed, as well as who reviewed specific audit documentation and the date of such review. (AU 339.18).

117. In connection with its December 2009 audit, H&A failed to document in its workpapers, in sufficient detail, the work it performed, the audit evidence obtained (including the source of such), procedures performed and conclusions reached.

AICPA Audit & Accounting Guide for Brokers and Dealers in Securities

118. Aside from the specific GAAS standards addressed above, the Guide reflects specific guidance applicable to the broker dealer industry. This Guide was prepared by the AICPA Stockbrokerage and Investment Banking Committee to assist broker dealers in the preparation of financial statements that would purport to be in conformity with GAAP, and to assist auditors in auditing and reporting on such broker dealer financial statements in accordance with GAAS. Included in that Guide are prescribed steps to assess the existence/completeness of receivables from and/or payables to broker-dealers. Those steps include, in part:

- Confirm balances in accounts for clearing and initiating brokers, and resolve all exceptions,
- Vouch documentation supporting the subsequent settlement of open transactions, and
- Reconcile pending and settled trades.

119. This Guide was available to H&A during its December 2009 audit. (Kanner Tr., p. 25:10). Further, with respect to this Guide, Mr. Kanner, commented that “everyone should be familiar with the various aspects” of the Guide. (Kanner Tr., p. 25:20). Mr. Prunier, however, was not aware of the Guide while performing the December 2009 audit.

120. During the December 2009 audit, H&A, however failed to obtain documentation supporting the subsequent settlement of open transactions, failed to reconcile pending and settled trades, and failed to resolve exceptions between the trade date balances and the settlement date balances even though they were aware of discrepancies.

Public Company Accounting Oversight Board (“PCAOB”) Concept Release

121. The PCAOB⁶³ issued PCAOB Release No. 2009-002, *Concept Release on Possible Revisions to the PCAOB’s Standard on Audit Confirmations*, on April 14, 2009 (“PCAOB Release No. 2009-002”), soliciting public comment on the potential direction of a proposed standards-setting project on audit confirmations. PCAOB Release No. 2009-002 notes that as a result of advances in technology, auditors now may obtain a direct website link into the electronic records of an audit client's customer, bank, or other confirming party and directly check the existence and amount of the audit client's balance without the need for interaction with an employee of that customer, bank, or other party.

⁶³ The PCAOB was established by the Sarbanes-Oxley Act of 2002, and is responsible for the establishment of auditing and related professional practice standards that must be followed by registered public accounting firms and by auditors when performing audits of the financial statements of public and registered filers. On April 16, 2003, the PCAOB adopted, as its interim standards, GAAS, as summarized in AU 150, and related interpretations in existence on that date. Financial statements of broker-dealers filed with the SEC for fiscal years ending after December 31, 2008, must be certified by a PCAOB-registered public accounting firm.

However, PCAOB Release No. 2009-002 continues by stating the following with respect to the direct website access:

The auditor may obtain a username and password separate from the client's to gain access to the client's account information. Although an auditor may be able to review electronic records with little or no interaction with client personnel, the auditor may need to interact with the confirming party to ascertain that the direct website link to the confirming party's records is secure and that the link provides the auditor access to the information that is requested.

(PCAOB Release No. 2009-002, Footnote 6). (Emphasis added.)

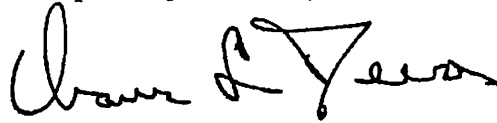
122. During the 2009 audit, H&A obtained purported audit support from the client by the client supposedly accessing a Penson website. H&A failed to independently access the Penson website by utilizing a user name and password separate from the client's user name and password and failed to interact directly with Penson to confirm that the website link to Penson's records is secure and that the website access provided the information that was required.

Standards of Reporting – AU 410, AU 411

123. As previously noted, the objective of the ordinary audit of financial statements by an independent auditor is to express an opinion based on his/her professional judgment as to whether the financial statements reflect, in all material respects, the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows in accordance with GAAP and whether its audit had been conducted in accordance with GAAS. (AU 411.04; AU 431.02).

124. For the reasons note above in this Statement, it was improper for H&A to have issued an unqualified audit opinion relating to Lighthouse's December 31, 2009 financial statements.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Harris L. Devor". The signature is written in a cursive style with a large initial "H" and "D".

Harris L. Devor, CPA

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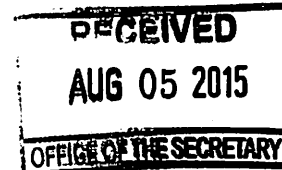
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August 4, 2015

Via UPS

The Honorable Cameron Elliot
Administrative Law Judge
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
alj@sec.gov



Re: In the Matter of Halpern & Associates LLC and Barbara Halpern, CPA,
Admin. File No. 3-16399

Dear Judge Elliot:

Yesterday the Division filed its Expert Report with the Court, captioned "Statement of Harris L. Devor, CPA." Enclosed please find a CD containing the exhibits referenced in that report.

Respectfully,

A handwritten signature in black ink, appearing to read "Barry O'Connell".

Barry O'Connell

cc: Office of the Secretary
Robert Heim, Esq., counsel for Respondents