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Report on

2015 Inspection of Lightfoot Guest Moore & Co., PC
(Headquartered in Dallas, Texas)

Issued by the

Public Company Accounting Oversight Board

March 17, 2016

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**



2015 INSPECTION OF LIGHTFOOT GUEST MOORE & CO., PC

Preface

In 2015, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Lightfoot Guest Moore & Co., PC ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.C of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included a review of portions of an issuer audit. This review was intended to identify whether deficiencies existed in the reviewed audit work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. 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. If the nonpublic portions of the report discuss criticisms of or potential defects in the firm's system of quality control, those discussions also could eventually be made public, but only to the extent the firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix A presents the text of the paragraphs of the auditing standards that are referenced in Part I.A. in relation to the description of auditing deficiencies there.

PROFILE OF THE FIRM¹

| | |
|---|---|
| Offices | 1 (Dallas, Texas) |
| Ownership structure | Professional corporation |
| Partners/professional staff ² | 2/4 |
| Issuer audit clients | None at the outset of the inspection; however, the Firm had issued at least one audit report with respect to an issuer since the preceding inspection |
| Lead partners on issuer audit work ³ | 1 |

¹ The information presented here is as understood by the inspection team, generally as of the outset of the inspection, based on the Firm's self-reporting and the inspection team's review of certain information. Additional information, including additional detail on audit reports issued by the Firm, is available in the Firm's filings with the Board, available at http://pcaobus.org/Registration/rasr/Pages/RASR_Search.aspx.

² 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.

³ The number of lead partners on issuer audit work represents the total number of Firm personnel who had primary responsibility for an issuer audit (as defined in AS No. 10, *Supervision of the Audit Engagement*) during the period between the 2012 inspection of the Firm and the outset of this inspection.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from May 4, 2015 to May 8, 2015.⁴

A. Review of Audit Engagement

The inspection procedures included a review of portions of one issuer audit performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable

⁴ For this purpose, "primary procedures" include field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. Primary procedures do not include (1) inspection planning, which is performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which extend beyond the primary procedures.

financial reporting framework. In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are materially misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points. As indicated below, however, in one instance, the inspection team identified a failure by the Firm to identify and address appropriately a departure from Generally Accepted Accounting Principles ("GAAP") that appeared to the inspection team to be material.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.⁵

The audit deficiencies that reached this level of significance are described below—

A.1. Issuer A

- (1) the Firm's failure to identify, or to address appropriately, departures from GAAP that appeared to the inspection team to be material, which

⁵ Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

related to presentation and disclosure concerning certain equity-related instruments (AS No. 14, paragraphs 30 and 31);

(2) the failure to perform sufficient procedures to test the accounting for and valuation of certain equity and other equity-related instruments (AS No. 14, paragraph 30; AS No. 15, paragraph 10; and AU 328, paragraphs .03 and .15); and

(3) the failure to perform sufficient procedures to evaluate whether certain assets were impaired (AU 336, paragraphs .08, .10 and .12; and AU 342, paragraph .11).

B. Auditing Standards

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement, and AS No. 15, *Audit Evidence*, paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The appropriateness of

evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A.

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audit for which each standard is cited.

| PCAOB Auditing Standards | Issuer |
|---|--------|
| AS No. 14, <i>Evaluating Audit Results</i> | A |
| AS No. 15, <i>Audit Evidence</i> | A |
| AU 328, <i>Auditing Fair Value Measurements and Disclosures</i> | A |
| AU 336, <i>Using the Work of a Specialist</i> | A |
| AU 342, <i>Auditing Accounting Estimates</i> | A |

C. Information Concerning PCAOB Inspections that is Generally Applicable to Triennially Inspected Firms

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects 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. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other

aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

C.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of internal control over financial reporting ("ICFR"). For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,⁶ as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the

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 the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation*, 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. In reaching its conclusions, an inspection team considers whether audit documentation or other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.⁷

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing

⁷ The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

deficiencies are present, rather than through a process intended to identify a representative sample.

C.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect or potential defect in a firm's quality control system.⁸ If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;⁹ related firm methodology, guidance, and practices; and possible root causes.

⁸ Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report may not discuss every audit deficiency the inspection team identified.

⁹ An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. This review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

END OF PART I

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

PART II

* * * *

B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control.¹⁰

B.1. Audit Performance

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

B.1.a. Due Care and Professional Skepticism

As discussed above, in the audit reviewed, the inspection team reported identifying three audit deficiencies of such significance that they appeared to the inspection team to result in an insufficiently supported audit opinion. With respect to each deficiency, based on its review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiencies were attributable, at least in part, to the engagement personnel having approached that aspect of the audit without due care, including without professional skepticism. This information provides cause for concern about whether the Firm's policies and procedures provide sufficient assurance that the Firm's engagement personnel will perform all aspects of their work on issuer audits with due care, including with

¹⁰ This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during its assessment of whether the Firm has satisfactorily addressed the quality control criticisms or defects within the twelve months after the issuance of this report.

professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence. [Issuer A]

B.1.b. Engagement Quality Review

In light of certain audit performance deficiencies described in Part II.A (and summarized in Part I.A), questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with AS No. 7, *Engagement Quality Review*. An engagement quality review performed with due care in compliance with AS No. 7 should have detected, and resulted in the Firm addressing, each of the deficiencies described in Part II.A. [Issuer A]

B.2. Responding to Possible Illegal Acts

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with applicable requirements when the Firm becomes aware of information indicating a possible illegal act. As described in Part II.C. below, the Firm, according to its version of certain events, became aware of such information and took an initial responsive step; the inspection team reported, however, that the Firm failed to take all steps that would be necessary under such circumstances. [Issuer A]

* * * *

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.¹¹

¹¹ 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 some cases, the result may be that none of a firm's response is made publicly available. 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.

LIGHTFOOTGUESTMOORE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

January 13, 2016

Helen A. Munter
Public Company Oversight Board
1666 K Street, N.W.
Washington, DC 20006

RE: Draft Inspection Report

In response to the December 11, 2015, Draft Report of Inspection on Lightfoot Guest Moore & Co., P.C. issued by the inspection team of the Public Company Accounting Oversight Board ("PCAOB") pursuant to its inspection conducted in May 2015, we take issue with the conclusions drawn by the inspection team as outlined below.

Part I.A.

The inspection team asserts that the firm did not identify or address errors in the presentation of the statement of stockholders' equity. During the EDGAR process, clerical errors did result in the misalignment and combination of numbers on this statement. This was not the statement upon which the firm based its opinion. The inspection team was provided a detailed statement of stockholders' equity without the errors upon which the firm based its opinion. Upon discovery of the clerical error in the filing process, the issuer was asked to amend the reporting to correct the errors.

The inspection team also asserts that the firm did not test the accounting or valuation of certain equity and other equity related instruments. We disagree with this assertion. The issuer entered into an agreement to satisfy accounts payables incurred in the normal course of business for mostly professional fees. The agreement called for the issuance of stock in exchange for the relinquishment of the associated payable. The agreement was not for future services or for the acquisition of long term assets. The firm documented the agreement and agreed that the current expense and valuation were done in an arms-length transaction.

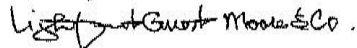
Additionally, the inspection team questioned the immediate vesting of stock options upon the issuer's breach of its employment contract with its employees. The contracts clearly stated that if the company violated the terms of the contract, the employees could give notice of the breach, and if not cured within the appropriate time frame, the employee could terminate and any options owed to the employee would immediately vest. Each of the breach conditions existed as of the date of the financial statements including the employees' notices of termination. Accordingly, the issuer recorded the accelerated vesting options in the current year. The firm agreed with that

treatment under ASC 718-10-35-3 and ASC 718-10-55-78 in which a change in the estimates require a change in the amount of compensation costs. In this case, the service period over which the options vested became immediate. Accordingly, the unamortized compensation costs at the date of change were recognized over the revised requisite service period.

Lastly, the inspection asserts that the firm did not evaluate whether certain assets were impaired. The firm disagrees with this assertion as well. The issuer acquired the mineral interest in question in an arms-length transaction in the prior fiscal year. At the request of the firm, the issuer engaged a third party to evaluate the property. The third party noted a range that the interest could be leased. The range varied from below the carrying cost to 1.5 times the carrying cost. Until it was pointed out in the first response to the draft inspection report, what the inspection team failed to recognize was that this is a retained ownership income amount and not a sale of the underlying mineral interest. The value of both hydrocarbon and non-hydrocarbon minerals were at historically high prices at the end of the issuer's fiscal year. There were no economic indicators at the time the financial statements were issued that an impairment was warranted. The inspection team failed to understand the economic environment or the value of a cash flow with an immediate component for approximately the carrying value of the asset with a residual income stream from any resulting mineral activity.

Accordingly, we strongly disagree with the assessment that sufficient evidential matter was not present.

Sincerely



Lightfoot Guest Moore & Co., PC

LIGHTFOOT GUEST MOORE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

January 13, 2016

Helen A. Munter
Public Company Oversight Board
1666 K Street, N.W.
Washington, DC 20006

RE: Draft Inspection Report

In response to the December 15, 2015, Draft Report of Inspection on Lightfoot Guest Moore & Co., P.C. issued by the inspection team of the Public Company Accounting Oversight Board ("PCAOB") pursuant to its inspection conducted in May 2015, we believe the inspection team has come to an incorrect conclusion.

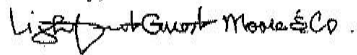
Part II.B.

As stated in our response to Part I, other than the clerical errors described on the statement of stockholders' equity, we believe the items identified by the inspection team were identified, addressed, and documented in accordance with PCAOB auditing standards.

The inspection team attributes their finding to a lack of due care and professional skepticism. The firm approached and designed the work with professional skepticism in every area of the audit. Upon presentation of the audit evidence, the firm initiated 21 adjusting entries including an impairment adjustment for \$8.3 million. The inspection team suggested a separate appraisal of mineral interest properties as the only other test they would do. Given the economic climate of the mineral industry at that time, the audit team did not feel this was warranted and an experienced auditor in the oil and gas industry would have recognized the validity of the evidence presented. Due care was performed in every aspect of the audit.

In response to our first response to the draft report, the inspection team has also questioned the firm's response to communications with the issuer to amend the report. The firm acted in a responsible manner, evaluated the situation, felt that the going concern report issued on the financial statements was still materially accurate and no further action was needed. To insinuate otherwise was not a responsible response.

Sincerely,



Lightfoot Guest Moore & Co., PC

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

| AS No. 14, <i>Evaluating Audit Results</i> | | |
|---|--|----------|
| Evaluating the Results of the Audit of Financial Statements | | |
| EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES | | |
| AS No. 14.30 | <p>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</p> <p>Note: AU sec. 411, <i>The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles</i>, establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, <i>Evaluating Consistency of Financial Statements</i>, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</p> <p>Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.</p> | Issuer A |

| AS No. 14, <i>Evaluating Audit Results</i> | | |
|---|---|----------|
| AS No. 14.31 | <p>As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.</p> <p>Note: According to AU sec. 508, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.^{18/}</p> | Issuer A |
| <p><u>Footnote to AS No. 14.31</u></p> <p>^{18/} AU secs. 508.41-.44.</p> | | |

| AS No. 15, <i>Audit Evidence</i> | | |
|--|---|----------|
| Sufficient Appropriate Audit Evidence | | |
| USING INFORMATION PRODUCED BY THE COMPANY | | |
| AS No. 15.10 | <p>When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:^{3/}</p> <ul style="list-style-type: none"> • Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that | Issuer A |

AS No. 15, Audit Evidence

| | | |
|--|--|--|
| | <p>information; and</p> <ul style="list-style-type: none"> Evaluate whether the information is sufficiently precise and detailed for purposes of the audit. | |
| <p><u>Footnote to AS No. 15.10</u></p> <p>^{3/} When using the work of a specialist engaged or employed by management, <u>see</u> AU sec. 336, <i>Using the Work of a Specialist</i>. When using information produced by a service organization or a service auditor's report as audit evidence, <u>see</u> AU sec. 324, <i>Service Organizations</i>, and for integrated audits, <u>see</u> Auditing Standard No. 5, <i>An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>.</p> | | |

AU 328, Auditing Fair Value Measurements and Disclosures

| | | |
|---|--|----------|
| Introduction | | |
| AU 328.03 | <p>The auditor should obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures are in conformity with GAAP. GAAP requires that certain items be measured at fair value. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, <i>Using Cash Flow Information and Present Value in Accounting Measurements</i>, defines the fair value of an asset (liability) as "the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale." ^{fn 1} Although GAAP may not prescribe the method for measuring the fair value of an item, it expresses a preference for the use of observable market prices to make that determination. In the absence of observable market prices, GAAP requires fair value to be based on the best information available in the circumstances.</p> | Issuer A |
| <p><u>Footnote to AU 328.03</u></p> <p>^{fn 1} Generally accepted accounting principles (GAAP) contain various definitions of fair value. However, all of the definitions reflect the concepts in the definition that appears in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, <i>Using Cash Flow Information and Present Value in Accounting Measurements</i>. For example, Governmental Accounting Standards Board Statement of Governmental Accounting Standards No. 31, <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i>, defines fair value as "the amount at which an investment could</p> | | |

| AU 328, Auditing Fair Value Measurements and Disclosures | | |
|---|---|----------|
| be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale." | | |
| Evaluating Conformity of Fair Value Measurements and Disclosures With GAAP | | |
| AU 328.15 | The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in conformity with GAAP. The auditor's understanding of the requirements of GAAP and knowledge of the business and industry, together with the results of other audit procedures, are used to evaluate the accounting for assets or liabilities requiring fair value measurements, and the disclosures about the basis for the fair value measurements and significant uncertainties related thereto. | Issuer A |

| AU 336, Using the Work of a Specialist | | |
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| Qualifications And Work Of A Specialist | | |
| AU 336.08 | <p>The auditor should consider the following to evaluate the professional qualifications of the specialist in determining that the specialist possesses the necessary skill or knowledge in the particular field:</p> <ul style="list-style-type: none"> a. The professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate b. The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance c. The specialist's experience in the type of work under consideration. | Issuer A |
| Relationship of the Specialist to the Client | | |
| AU 336.10 | The auditor should evaluate the relationship ^{fn 6} of the specialist to the client, including circumstances that might impair the specialist's objectivity. Such circumstances include situations in which the client has the ability—through employment, ownership, contractual right, family relationship, | Issuer A |

| AU 336, Using the Work of a Specialist | | |
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| | or otherwise—to directly or indirectly control or significantly influence the specialist. | |
| Footnote to AU 336.10 | | |
| ^{fn 6} The term <i>relationship</i> includes, but is not limited to, those situations meeting the definition of "related parties" contained in the financial reporting framework applicable to the company under audit. | | |
| Using The Findings Of The Specialist | | |
| AU 336.12 | <p>The appropriateness and reasonableness of methods and assumptions used and their application are the responsibility of the specialist. The auditor should (a) obtain an understanding of the methods and assumptions used by the specialist, (b) make appropriate tests of data provided to the specialist, taking into account the auditor's assessment of control risk, and (c) evaluate whether the specialist's findings support the related assertions in the financial statements. Ordinarily, the auditor would use the work of the specialist unless the auditor's procedures lead him or her to believe the findings are unreasonable in the circumstances. If the auditor believes the findings are unreasonable, he or she should apply additional procedures, which may include obtaining the opinion of another specialist.</p> | Issuer A |

| AU 342, Auditing Accounting Estimates | | |
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| Evaluating Accounting Estimates | | |
| Evaluating Reasonableness | | |
| AU 342.11 | <p>Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach:</p> <p>a. Identify whether there are controls over the preparation of accounting estimates and</p> | Issuer A |

AU 342, Auditing Accounting Estimates

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| | <p>supporting data that may be useful in the evaluation.</p> <ul style="list-style-type: none"> b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose. f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate. | |
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