1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Report on

2016 Inspection of RSM US LLP
(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

July 27, 2017

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

PCAOB RELEASE NO. 104-2017-159A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2017-159)

PCAOB Release No. 104-2017-159A

PCAOB
Public Company Accounting Oversight Board

2016 INSPECTION OF RSM US LLP

Preface

In 2016, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm RSM US LLP[1] ("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.D of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed 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, portions of Appendix A and Appendix B. Appendix A 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 B 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.

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization became effective as of December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

---

1 The Firm reported on PCAOB Form 2 that the name McGladrey LLP was also used in audit reports.

PCAOB
Public Company Accounting Oversight Board

TABLE OF CONTENTS FOR PART I OF THE INSPECTION REPORT

EXECUTIVE SUMMARY

This summary sets out certain key information from the 2016 inspection of RSM US LLP ("the Firm"). The inspection procedures included reviews of portions of 15 issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. In seven audits, certain of the 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 conformity with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). These deficiencies are described in Part I.A of the report.

Effects on Audit Opinions

Of the seven issuer audits that appear in Part I.A, deficiencies in six audits relate to testing controls for purposes of the ICFR opinion, and deficiencies in six audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the six audits in which substantive testing deficiencies were identified, four audits included deficiencies in substantive testing that the inspection team determined were caused by a reliance on controls that was excessive in light of deficiencies in the testing of controls.

	Number of Audits
Deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	5 Audits: Issuers A, B, C, D, and E
Deficiencies included in Part I.A related to the ICFR audit only	1 Audit: Issuer F
Deficiencies included in Part I.A related to the financial statement audit only	1 Audit: Issuer G
Total	7

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that are included most frequently in Part I.A of this report. A general description of each type is provided in the table; the description of each deficiency in Part I.A contains more specific information about the individual deficiency. The table includes only the three most frequently identified deficiencies that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Issue	Part I.A Audits
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	6 Audits: Issuers A, B, C, D, E, and F
Failure to sufficiently test controls over or sufficiently test the accuracy and completeness of issuer-produced data or reports.	6 Audits: Issuers A, B, C, D, E, and F
Design of substantive procedures, including sample sizes, was based on a level of control reliance that was not supported due to deficiencies identified in the testing of controls	4 Audits: Issuers A, B, C, and D

Areas in which Audit Deficiencies Were Most Frequently Identified

The following table lists, in summary form, the financial statement accounts or auditing areas in which the deficiencies that are included in Part I.A of this report most frequently occurred. The table includes only the three most frequently identified areas that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Area	Part I.A Audits
Revenue, including accounts receivable, deferred revenue, and allowances	3 Audits: Issuers A, B, and D
Business combinations	3 Audits: Issuers B, C, and F
Loans, including the allowance for loan losses	2 Audits: C and F

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[2] for the inspection from May 2016 to August 2016. The inspection team performed field work at the Firm's National Office and at five of its approximately 86 U.S. practice offices.[3]

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 15 issuer audits performed by the Firm.

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 B 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 the references to the

---

[2] For this purpose, the time span for "primary procedures" includes 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. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

[3] This represents the Firm's total number of practice offices; however, approximately 43 of the Firm's practice offices have primary responsibility for issuer audit clients. The Firm's National Office is located in Minneapolis, Minnesota.

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 of the 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 conformity with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective ICFR. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and/or the issuer maintained effective ICFR.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. 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.

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.[4]

---

[4] 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.

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.7, below.

Audit Deficiencies

A.1. <u>Issuer A</u>

In this audit of an issuer that generated its revenue from providing professional services, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures related to revenue and accounts receivable, including unbilled revenue and the allowance for doubtful accounts were insufficient, as follows –

  - The Firm selected for testing certain controls over revenue and accounts receivable, including unbilled revenue and the allowance for doubtful accounts, consisting of management's review of (1) new customer contracts to determine whether evidence of a valid arrangement existed and hourly billing rates were fixed and determinable; (2) weekly employee time reporting, which was an input to customer invoices; (3) the balance sheet account reconciliations; and (4) the allowance for doubtful accounts calculation. The Firm's procedures to test these controls consisted of inquiring of management and inspecting supporting documentation for indications that the controls had operated. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow up. (AS 2201.42 and .44)

  - The Firm failed to identify and test any controls over (1) the generation and issuance of customer invoices and (2) the accuracy and completeness of the information produced by the issuer and used in the operation of controls described above over revenue and accounts receivable, including controls over unbilled revenue and the allowance for doubtful accounts. (AS 2201.39)

- Documentation in the Firm's work papers indicated that revenue was significantly reduced by customer discounts and volume rebates and there were instances in which the issuer entered into fixed fee arrangements. The Firm failed to identify and test any controls over the initiation and processing of customer discounts and volume rebates during the year under audit and the determination of any necessary year-end accruals for such amounts. (AS 2201.39) In addition, the Firm failed to evaluate the effect of these arrangements in determining whether the issuer properly recognized revenue from such arrangements in conformity with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition*. (AS 2810.30)

- The Firm performed substantive analytical procedures comparing actual and expected revenue that were disaggregated by issuer location. For the issuer's largest location, the Firm failed to test the accuracy and completeness of issuer-produced data that the Firm used to obtain corroboration for the difference between actual and expected revenue. In addition, for two other locations, the Firm established an expectation for revenue that included unbilled revenue, certain fees, and client reimbursements, but, in evaluating the reasonableness of actual reported revenue, compared its expectation to an actual revenue amount that excluded some such revenue. (AS 2305.13, .14, .16, .17, and .21)

- The Firm designed its substantive procedures – including its sample sizes – to test revenue and accounts receivable, including unbilled revenue, based on a level of reliance on controls and substantive analytical procedures that was not supported due to the deficiencies in the Firm's testing of controls and use of substantive analytical procedures that are described above. As a result, the sample sizes the Firm used to test this revenue and accounts receivable, including unbilled revenue, were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- To test revenue substantively, the Firm selected a sample of customer billings and determined whether an agreement was in place and vouched to evidence of subsequent customer payments. The Firm failed to perform procedures to determine whether the amounts invoiced to customers were based on (1) contractually agreed-upon billing rates; and (2) accurate and complete employee time reporting by customer project. In addition, the Firm failed to perform procedures to determine whether the subsequent customer payments related to the transactions selected for testing. (AS 1105.10; AS 2301.08 and .13)

- The Firm's substantive procedures related to the existence of accounts receivable and unbilled revenue were insufficient, as follows –

  - To test the existence of accounts receivable at an interim date, the Firm requested positive confirmations from the issuer's customers for a sample of transactions and, for instances of non-responses to the confirmation requests, performed alternative procedures that included obtaining copies of invoices and vouching to evidence of subsequent customer payments. With respect to the existence of unbilled revenue at the same interim date, the Firm performed procedures that included vouching to copies of subsequently issued invoices and evidence of subsequent customer payments. The Firm did not perform procedures to determine whether the amounts invoiced to customers were based on contractually agreed-upon billing rates and accurate and complete employee time reporting by customer project in its test of details for unbilled revenue at the interim date and in performing alternative procedures for accounts receivable. In addition, the Firm failed to perform procedures to determine whether the subsequent customer payments related to the transactions selected for testing. (AS 1105.10; AS 2301.08)

  - The Firm performed procedures to cover the remaining period from the interim date to year end, which included comparing bank statement deposit activity to the issuer's revenue, by location, for the remaining period. The Firm did not perform procedures to determine whether the cash deposits noted in the bank statements represented revenue transactions. (AS 2301.45)

- In testing the issuer's allowance for doubtful accounts, the Firm failed to perform procedures to (1) evaluate the reasonableness of the specific reserve percentages applied to specific customer balances and aging categories; (2) test the accuracy of the accounts receivable aging report; and (3) test key factors used in developing the estimate, including testing payments that were stated to have been received on certain aged balances subsequent to the fiscal year end under audit. (AS 2501.11)

- The Firm's procedures related to cash and cash equivalents were insufficient. Specifically –

    - o The Firm selected for testing certain controls that included management's review of bank account reconciliations. The Firm's procedures to test these controls consisted of inquiring of management and determining that the controls operated by noting signoffs on bank account reconciliations. The Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

    - o For some locations that held cash and cash equivalents, which in aggregate represented a significant portion of the issuer's total cash and cash equivalents and presented a reasonable possibility of material misstatement, the Firm failed to perform any substantive testing of cash and cash equivalents. (AS 2101.11-.12)

A.2. <u>Issuer B</u>

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures related to the accounting for a business combination were insufficient. Specifically –

    - o The Firm selected for testing two controls consisting of reviews over the significant assumptions and purchase accounting support used in the valuation of the assets acquired and liabilities assumed. The Firm's procedures consisted of inquiring of management, inspecting correspondence for indications that the reviews had occurred, and inspecting certain supporting documentation and memoranda to determine whether they included analysis of certain key areas of the acquisition. The

Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

- The Firm's substantive procedures identified a number of misstatements in the issuer's accounting for the business combination. The Firm concluded that a control deficiency existed and that it constituted a significant deficiency and not a material weakness because the aggregate amount of the misstatements was significant, but not material. In evaluating the severity of the control deficiency, the Firm considered only the actual amount of the misstatements it identified and failed to consider the magnitude of the potential misstatements resulting from the deficiency. (AS 2201.62-.63)

- The issuer engaged an external valuation specialist to estimate the fair values of certain tangible assets acquired by the issuer. The specialist's fair value estimates used financial information and historical data provided by the issuer. The Firm failed to perform procedures to (1) evaluate the reasonableness of certain significant assumptions underlying the specialist's forecast of earnings before interest, taxes, depreciation and amortization and the terminal value used in determining the fair value estimates of the acquired tangible assets; and (2) test the accuracy and completeness of the issuer-provided financial information and historical data used by the specialist in determining the fair values of these assets. (AS 1210.12; AS 2502.26 and .28)

• The Firm took a controls reliance approach across all of the issuer's locations to test revenue for the year. The Firm excluded the acquired locations related to the business combination discussed above from the scope of its opinion on the effectiveness of ICFR. The Firm's procedures to test revenue were insufficient. Specifically –

  - The Firm failed to identify and test any controls over the revenue recognition process related to (1) the review and approval of contractual arrangements; (2) the accuracy and completeness of recording relevant contractual terms into the accounting system; and (3) the accuracy and completeness of invoices generated, including date and quantities shipped, and pricing information. (AS 2201.39; AS 2301.16)

- The Firm selected for testing a control consisting of management's review of a monthly reconciliation of all purchase, sale, and inventory activity for each issuer location. The Firm's procedures to test this control consisted of inquiring of management; and inspecting a sample of reconciliations, including comparing purchase and sale details to the general ledger and determining whether the reconciliations were approved by the control owner. The Firm, however, failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the control owner, including the specific expectations applied in the review, the criteria used to identify items for follow up, and the resolution of matters for follow-up. In addition, the Firm failed to test the accuracy and completeness of the information produced by the issuer and used in the operation of the control, including purchase, sale, and inventory activity included in monthly reconciliations. (AS 2201.39, .42, and .44; AS 2301.16 and .18)

- The Firm performed substantive analytical procedures over revenue, disaggregated by issuer location and two revenue categories. For one revenue category, the Firm developed expectations of revenue by location based on the volume of products sold and average market pricing data for the year. For the other revenue category, the Firm performed monthly trend analyses for the year by location of revenue, quantities sold, and revenue mix. Further, the Firm developed expectations of the revenue mix by issuer location for both categories of revenue as a percentage of total revenue for the year based on the prior year product mix and knowledge of current year activity. For one revenue category, the Firm failed to investigate differences from the Firm's expectations that individually exceeded the Firm's component materiality amount for one location, and that in aggregate exceeded the Firm's overall materiality amount. For the second revenue category, the Firm failed to establish expectations for its monthly trend analyses and set a threshold for investigation, and as a result, it failed to evaluate whether differences from expectation, including cumulative amounts for the year, aggregated to an unacceptable amount.

For the revenue mix by issuer location for both categories of revenue, the Firm identified differences that exceeded its threshold for investigation, however, it failed to obtain corroboration of management's explanation for such differences. (AS 2305.17, .20, and .21)

- The Firm designed its substantive procedures – including its sample sizes – to test revenue based on a level of reliance on controls and substantive analytical procedures that was not supported due to the deficiencies in the Firm's testing of controls and use of substantive analytical procedures that are described above. As a result, the sample sizes the Firm used to test revenue were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.3. Issuer C

In this audit of an issuer in the financial services industry, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm identified seven deficiencies in information technology general controls ("ITGCs") related to program change management over a financially significant application that supported the core banking functions at one of the issuer's subsidiaries, including loans, deposits, and general ledger. In evaluating those deficiencies, the Firm identified and tested two compensating controls consisting of (1) allowing only certain individuals to make modifications to overall system security parameters; and (2) management's review of logging and monitoring tools used to record and report security events, and concluded that the deficiencies, individually and in combination, did not rise to the level of a material weakness. The Firm's procedures to test the compensating controls consisted of inquiring of management; testing whether the controls had operated, including inspecting documentation to evaluate whether reports were generated and reviewed; and determining whether appropriate segregation of duties existed. The Firm, however, failed to evaluate whether the compensating controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.68)

- The issuer used two different sets of processes and controls at its two banking subsidiaries to develop its allowance for loan losses estimate ("ALL"). The Firm's procedures related to the ALL were insufficient, as follows –

  - The Firm selected for testing a combined total of five controls at the issuer's two banking subsidiaries, consisting of reviews over the ALL calculation, and for one of the banking subsidiaries, a board of directors' review over the ALL calculation. The Firm's procedures to test these controls consisted of inquiring of management; testing whether the controls had operated, including inspecting signatures, committee minutes, and other evidence of approval; and inspecting the ALL calculation and certain supporting documentation used in the operation of these controls. The Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

  - The Firm selected for testing a combined total of seven controls at the issuer's two banking subsidiaries, consisting of (1) annual reviews of assigned loan risk grades performed throughout the year; (2) management approval of assigned loan risk grade changes; and (3) periodic loan officer reviews of classified, watch list, and delinquent loan reports. The Firm's procedures to test these controls consisted of inquiring of management; testing whether the controls had operated, including inspecting supporting documentation and approval of changes in assigned loan risk grades; and performing independent loan review procedures to evaluate the reasonableness of the assigned loan risk grades and any related specific impairment reserves. For the periodic loan officer reviews of classified, watch list, and delinquent loan reports, the Firm identified several missing loan officer reviews. The Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements. Specifically –

    - With respect to the annual reviews of assigned loan risk grades, the Firm's independent loan reviews failed to test whether the control owner performed the procedures for the annual reviews. (AS 2201.42 and .44)

    - With respect to the management approval of loan risk grade changes, the Firm failed to ascertain and evaluate the nature of the review procedures performed by the control owner to determine whether there was adequate support for the changes in the assigned loan risk grades. (AS 2201.42 and .44)

    - With respect to the periodic loan officer reviews, the Firm failed to ascertain and evaluate the nature of the review procedures performed by the loan officers, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. In addition, the Firm failed to evaluate evidence that the control was not performed in determining whether there were control deficiencies. (AS 2201.42, .44, and .48)

    - The Firm failed to identify and test any controls over the reasonableness of assigned loan risk grades for those loans without changes in the assigned loan risk grades subsequent to the respective loans' annual review. (AS 2201.39)

- The Firm selected for testing two controls, one at each of the issuer's two banking subsidiaries, consisting of management's quarterly reviews of impaired loan analyses. The Firm's procedures to test these controls consisted of inquiring of management, testing whether the control had operated for one of the banking subsidiaries by observing initials on a spreadsheet, and independently evaluating the reasonableness of the specific reserve impairment amount for a selection of loans at the other banking subsidiary. The Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

- The Firm failed to test any controls over the accuracy and completeness of information produced by the issuer and used in the performance of the above controls. (AS 2201.39)

- To test the ALL, the Firm designed its substantive procedures – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls over the ALL. As a result, the sample sizes the Firm used to test the ALL were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- For the specific impairment reserve component of the ALL, the Firm failed to perform procedures, beyond determining that the issuer complied with its stated policy on applying discounts to appraised values, to evaluate the appropriateness and reasonableness of the issuer's discounts applied to the appraised value of real estate collateral. In addition, for an impaired loan, beyond tracing the total reported amount in a borrower's unaudited financial statements to the issuer's impairment analysis, the Firm failed to test the existence and valuation of machinery and equipment collateral used in determining the specific impairment reserve. (AS 2501.11; AS 2502.26 and .28)

• The issuer completed a business combination during the year under audit. The issuer engaged an external valuation specialist and employed real estate appraisers to determine the fair values of the assets acquired and the liabilities assumed. The Firm's procedures related to the issuer's accounting for the business combination transaction were insufficient, as follows –

  - The Firm selected for testing six controls consisting of the reviews of (1) the valuations performed by the external valuation specialist and real estate appraisers and (2) the accuracy of the journal entries used to record the business combination. The Firm's procedures to test these controls consisted of inquiring of management and testing whether the controls had operated, including inspecting supporting documentation and observing evidence of approval. The Firm observed that the control over the valuations performed by real estate appraisers operated on approximately five percent of the related real estate appraisals. The Firm, however, failed to evaluate whether these six controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. For the review of the real estate appraisers' valuations, the Firm failed to evaluate whether the control operating over only approximately five percent of the real estate appraisals obtained by the issuer in conjunction with the business combination was adequately designed to address the assessed risk of material misstatement. (AS 2201.42 and .44)

- o For one control over the accuracy and completeness of the issuer-provided data used by the external valuation specialist that consisted of management's review of such data, the Firm's procedures were limited to inquiring of management and tracing the summary schedule of purchased credit-impaired loans and the related specific reserves to the specialist's valuation report. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the control owner over the issuer-provided data, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

A.4. Issuer D

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient procedures related to revenue –

- For three revenue categories, the Firm failed to perform sufficient procedures to test the issuer's controls, as follows –

  - o For one of the revenue categories, the Firm failed to identify and test controls that addressed whether sales entered into the billing system were appropriately supported by purchase orders, sales orders, and shipping documents. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of the sales order listing and the sales orders marked shipped that the issuer used in the performance of controls. (AS 2201.39)

- o For the two other revenue categories, the Firm selected for testing a control consisting of management's review of the deferred revenue account reconciliation. The Firm's procedures to test this control consisted of inquiring of management; testing whether the control had operated, including observing evidence of approval and that revenue additions above a defined amount were properly supported; and comparing amounts to the general ledger. The Firm, however, failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the control owner, including the specific documents reviewed to assess the accuracy of the significant inputs such as when services were performed and the number of such services, the specific expectations applied in the review, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

- The Firm designed its substantive procedures – including sample sizes – to test revenue based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are described above. As a result, the sample sizes that the Firm used to test revenue were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.5. Issuer E

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as its procedures related to self-insurance reserves were insufficient. Specifically –

- The Firm selected for testing four controls consisting of a combination of management's reviews and reconciliations over the issuer's self-insurance estimation process that involved the use of an issuer-engaged specialist and that relied, in part, on data prepared by various outside service organizations. The Firm's procedures to test these controls consisted of inquiring of management; testing whether the controls had operated, including observing evidence of approval; comparing amounts to supporting documentation and determining whether supporting schedules were mathematically accurate; and, for one control, performing procedures to determine whether all items meeting the scope for investigation included explanations. The Firm, however, failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to evaluate the appropriateness of the criteria the control owners used to identify items for follow up. In addition, the Firm's testing of certain relevant complementary user entity controls in place at the issuer over the accuracy and completeness of the data provided by the outside service organizations that was used in the operation of the above mentioned controls was limited to inquiring of management. (AS 2201.42, .44, and .B19)

- The Firm failed to test the accuracy and completeness of the issuer-provided data used by the specialist in determining the issuer's self-insurance reserve estimate. (AS 1210.12)

A.6. Issuer F

In this audit of an issuer in the financial services industry, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR –

- The Firm selected for testing three controls consisting of management's and internal audit's review of the ALL calculation and supporting documentation, and management's review of the qualitative factors included in the ALL memorandum. The Firm's procedures consisted of inquiring of management and internal audit; testing whether the controls had operated, including inspecting evidence of signoffs and completed checklists; and inspecting the ALL calculation and supporting documentation, and ALL memorandum for two quarters. The Firm, however, failed to perform sufficient procedures to test the controls over the general reserve component of the ALL, which represented a significant portion of the total ALL. Specifically –

    - The Firm failed to evaluate whether the controls operated at a level of precision that would prevent or detect material misstatements, as it failed to ascertain and evaluate the nature of the review procedures performed by the respective control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of matters for follow-up. (AS 2201.42 and .44)

    - The Firm failed to sufficiently evaluate whether a formula error detected in the issuer's ALL calculation during substantive testing indicated a control deficiency with respect to the control that consisted of management's review of the ALL calculation and supporting documentation. In evaluating whether this error indicated a control deficiency, the Firm concluded both (1) that the internal audit review was a compensating control, and (2) that the issuer had remediated any deficiency by revising its ALL calculation process subsequent to year end. The first conclusion was incorrect because the internal audit review operated only once a year at an interim date and also because that review had itself failed to identify the error in question. The second conclusion was irrelevant to the evaluation of the effectiveness of the issuer's controls as of year end. (AS 2201.68)

  - The Firm failed to test any controls over the accuracy and completeness of the information produced by the issuer and used in the performance of the above controls. (AS 2201.39)

- The Firm failed to identify and test any controls over the accounting for a business combination. (AS 2201.39)

A.7. <u>Issuer G</u>

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures related to the classification of debt were insufficient. Specifically, with respect to a financial covenant with which the issuer was out of compliance at year end, the Firm, in testing whether the issuer's related debt was appropriately classified as long-term, failed to evaluate whether it was probable that the issuer would be able to comply with the financial covenant through the subsequent year. (AS 2810.30-.31)

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several 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 may 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. Paragraphs .02, .05, and .06 of AS 1015, *Due Professional Care in the Performance of Work*, require the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AS 1015.07-.09 and paragraph .07 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, 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 2301.03, .05, and .08 require the auditor to design and implement audit responses that address the risks of material misstatement. Paragraph .04 of AS 1105, *Audit Evidence*, 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) or the risk associated with the control (in the audit of ICFR) 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 audits for which each standard is cited. For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
AS 1105, *Audit Evidence*	Issuer A	2
AS 1210, *Using the Work of a Specialist*	Issuer B Issuer E	1 1
AS 2101, *Audit Planning*	Issuer A	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer B Issuer C Issuer D Issuer E Issuer F	4 4 10 2 1 4
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer A Issuer B Issuer C Issuer D	4 3 1 1
AS 2305, *Substantive Analytical Procedures*	Issuer A Issuer B	1 1
AS 2315, *Audit Sampling*	Issuer A Issuer B Issuer C Issuer D	1 1 1 1
AS 2501, *Auditing Accounting Estimates*	Issuer A Issuer C	1 1
AS 2502, *Auditing Fair Value Measurements and Disclosures*	Issuer B Issuer C	1 1
AS 2810, *Evaluating Audit Results*	Issuer A Issuer G	1 1

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to the deficiencies included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed. The following standards were cited for only one issuer and are excluded from the table: AS 1105 and AS 2101.[5]

	AS 1210	AS 2201	AS 2301	AS 2305	AS 2315	AS 2501	AS 2502	AS 2810
Loans, including ALL		C, F	C		C	C	C	
Business combinations	B	B, C, F					B	
Cash and cash equivalents		A						
Debt								G
IT-related		C						
Reserves	E	E						
Revenue, including accounts receivable, deferred revenue, and allowances		A, B, D	A, B, D	A, B	A, B, D	A		A

5 The AS 1105 issue for issuer A related to revenue and the AS 2101 issue for issuer A related to cash and cash equivalents.

B.3. Audit Deficiencies by Industry

The table below lists the industries[6] of the issuers for which audit deficiencies were discussed in Part I.A of this report and cross references the issuers to the specific auditing standards related to the deficiencies.[7]

	AS 1105	AS 1210	AS 2101	AS 2201	AS 2301	AS 2305	AS 2315	AS 2501	AS 2502	AS 2810
Energy		B		B	B	B	B		B	G
Financial Services				C, F	C		C	C	C	
Health Care		E		E						
Industrials	A		A	A	A	A	A	A		A
Information Technology				D	D		D			

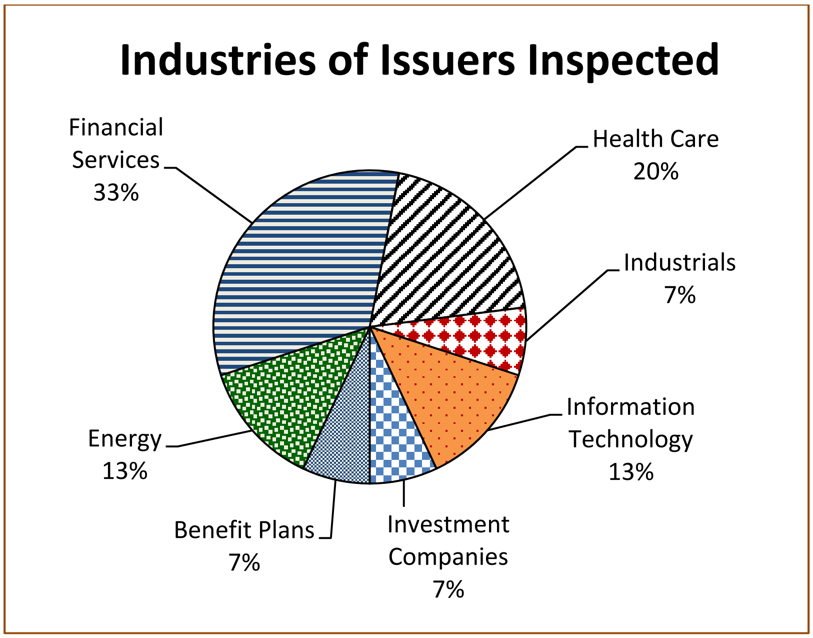
6 The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

7 Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

C. Data Related to the Issuer Audits Selected for Inspection

C.1. Industries of Issuers Inspected

The chart below categorizes the 15 issuers whose audits were inspected in 2016, based on the issuer's industry.[8]

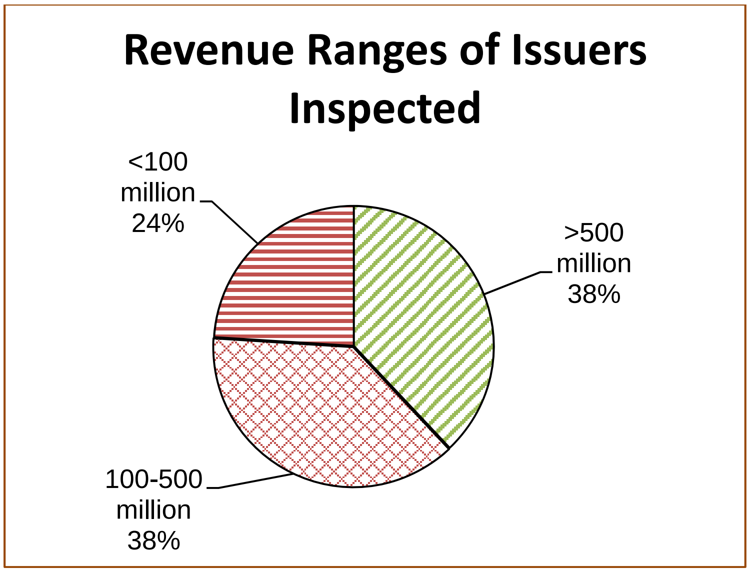


Industry	Number of Audits Inspected	Percentage
Benefit Plans	1	7%
Energy	2	13%
Financial Services	5	33%
Health Care	3	20%
Industrials	1	7%
Information Technology	2	13%
Investment Companies	1	7%

[8] See Footnote 6 for additional information on how industry sectors were classified.

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 13 issuers[9] whose audits were inspected in 2016.[10] This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.



Revenue (in US$)	Number of Audits Inspected	Percentage
<100 million	3	24%
100-500 million	5	38%
>500 million	5	38%

---

9 The chart excludes two of the issuers whose audits were inspected, a benefit plan and an investment company, because they have no revenue data.

10 The revenue amounts reflected in the chart are for the issuers' fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews 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.

D.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of ICFR. 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. For each specific portion of the audit that is selected, the inspection team 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. 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.[11]

---

[11] 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

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,[12] as well as a firm's failure to perform, or to perform sufficiently, certain necessary tests of controls and substantive audit procedures. An inspection of an annually inspected firm does 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 relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In reaching its conclusions about whether a deficiency exists, an inspection team considers whether audit documentation or any 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 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 1215, *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 the case of every matter cited in the public portion of a final inspection

---

professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

[12] 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.

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.

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

D.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.[13] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the

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

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;[14] related firm methodology, guidance, and practices; and possible root causes.

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. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining issuer audit engagements, including the application of the firm's risk-rating system; (4) processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's U.S. issuer audits; and (5) the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

---

[14] 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.

D.2.a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports, communications, and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.2.b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area are designed to focus on (1) whether the firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks of material misstatement identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

D.2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I

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

PART II

ISSUES RELATED TO QUALITY CONTROLS

This Part II contains a discussion of criticisms of and potential defects in the Firm's quality control system.[15] As described below, an analysis of the inspection results reported by the inspection team, including the results of the reviews of individual audits, indicates that the Firm's system of quality control requires remedial action in order to provide sufficient assurance that the Firm's audit work will meet applicable standards and requirements.

A. Deficiencies in the System of Quality Control Related to Testing Internal Control

Under PCAOB quality control standards, a firm should have policies and procedures that provide it with reasonable assurance that work is assigned to personnel who have the necessary degree of technical proficiency (QC 20.13) and that the work performed by those personnel meets applicable professional standards (QC 20.03 and .17). The inspection results indicate that the Firm's system of quality control does not provide such assurance with respect to testing and evaluating internal control in accordance with AS 2201 and AS 2301.[16]

The inspection team identified deficiencies in testing controls in six integrated audits,[17] all of which are included in Part I.A of this report. In these audits, it appeared to

---

[15] This report's description of quality control issues is generally based on the inspection team's observations that occurred 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 * * * * [have been] 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.

[16] As noted below, noncompliance with AS 1015.06-.07 and paragraphs .09 and .10 of AS 1220, *Engagement Quality Review*, appear to have contributed to some of the identified deficiencies.

[17] Issuers A, B, C, D, E, and F.

the inspection team that the deficiencies resulted in a failure to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. In four[18] of the audits, it appeared to the inspection team that the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements because the Firm's substantive procedures were based on a level of control reliance that was not supported. Similar deficiencies in testing internal control were also observed in the 2015 and 2014 inspections.

As described in Part I.A of this report, the inspection team identified deficiencies related to testing the design and operating effectiveness of controls over revenue; management estimates, including the ALL, reserves, and valuation of assets acquired in business combinations; ITGCs; and cash and cash equivalents that resulted in insufficiently supported audit opinions in six audits.[19] In all six of the audits, the Firm's testing of controls that included review elements was insufficient. In all of these audits, the Firm did not test controls related to the accuracy and completeness of issuer-produced information used in the operation of controls. In three of the audits,[20] the Firm did not sufficiently evaluate identified control deficiencies or findings from substantive procedures to determine whether the deficiencies were material weaknesses as of the date of management's assessment. In multiple instances on one of the audits,[21] the Firm's ICFR conclusions were drawn, in part, on the basis of the Firm's substantive procedures not having detected misstatements.

The inspection results indicate that most of these deficiencies may stem, at least in part, from a lack of due professional care when performing procedures to test internal control. Some of the deficiencies may also stem, at least in part, from inadequate understanding of PCAOB standards, including the requirements related to (1) obtaining a sufficient understanding of the likely sources of potential misstatements, (2) appropriately determining whether controls were designed and operated at a level of precision necessary to prevent or detect material misstatements, (3) understanding the level and type of audit evidence necessary to support a control risk assessment below

---

[18] Issuers A, B, C, and D.

[19] Issuers A, B, C, D, E, and F.

[20] Issuers B, C, and F.

[21] Issuer C.

the maximum, and (4) obtaining the evidence necessary to conclude on the effectiveness of the controls when data or reports are used in the operation of the controls.

The frequency, severity, and recurring nature of certain of the deficiencies raise concerns that the Firm's system of quality control does not provide reasonable assurance that the Firm will test internal control in accordance with the provisions of AS 2201 and AS 2301, as well as other applicable standards. While the Firm had issued practice aids to assist in developing expertise and implementing AS 2201 and had re-emphasized in recent annual trainings certain aspects of the deficiencies identified in the prior inspection reports, it is critical that the Firm continue to improve its performance in this area. In addition, the Firm should design and implement a process to monitor the effectiveness of its corrective actions in this area.

B. Deficiencies in the System of Quality Control Related to Engagement Supervision and Review

The inspection results indicate that the Firm's system of quality control does not provide the reasonable assurance described in QC 20.03 and .17, and paragraph .08 of QC 40, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*, that the supervisory, including review, activities performed by the Firm's partners will meet the requirements of AS 1201, *Supervision of the Audit Engagement* and that the review activities performed by the Engagement Quality Review ("EQR") partners will meet the requirements of AS 1220.

As was also the case in prior years, many of the deficiencies that the inspection team identified appear to have been the result, at least in part, of inadequate reviews of the audit work by the engagement partner and/or the EQR partner.

B.1. Engagement Partner Supervision, Including Review

The 2016 inspection results show deficiencies in the supervision of audits, including review of audit work, by the Firm's engagement partners. All of the audits discussed in Part I.A included deficiencies that related to identifying, evaluating, and addressing risks in complex areas of the audit, where particular attention and effort on the part of the engagement partners would be expected.

The Firm has undertaken efforts to determine the root cause of such failures. The Firm's root cause analyses of engagement partners' failures to ensure that such risks are properly addressed should include evaluating the extent to which the failures resulted from other deficiencies in supervision, such as devoting insufficient care to the necessary review of work in complex areas of the audit. The Firm should implement corrective actions to address the results of those analyses. Following these actions, the Firm should implement, and monitor the effectiveness of, appropriate modifications or enhancements to its system of quality control.

B.2. EQR

The 2016 inspection results show deficiencies in the Firm's EQRs. In all of the audits included in Part I.A of this report, the inspection team identified a deficiency in an area that was or should have been subject to the EQR partner's evaluation. For example, in the seven audits described in Part I.A of this report, the EQR partner failed to identify or appropriately address a deficiency in an area of significant risk, including in some cases a fraud risk.

These deficiencies suggest that some EQR partners may not have a sufficient understanding of applicable PCAOB standards to assess the work in order to fulfill their responsibilities, did not perform their reviews as thoroughly as necessary, or did not devote sufficient time and attention to their reviews.

The Firm has undertaken efforts to determine the root cause of such failures. Those efforts include evaluating whether, in making EQR assignments, the Firm sufficiently considers whether the levels of knowledge and competence of the EQR partners assigned to issuer audits are appropriate for the engagement, based on the characteristics of the company and industry. Based on the results of its analyses, the Firm should implement corrective actions as needed. Following these actions, the Firm should implement, and monitor the effectiveness of, appropriate modifications or enhancements to its system of quality control.

* * * *

A. PCAOB Standards

The table below lists the specific PCAOB standards that are primarily related to the descriptions of defects in, or criticisms of, the Firm's system of quality control included in this Part of the report.[22]

PCAOB Standards	Part II Section
AS 1015, *Due Professional Care in the Performance of Work*	A - Deficiencies in the System of Quality Control Related to Testing Internal Control
AS 1201, *Supervision of the Audit Engagement*	B - Deficiencies in the System of Quality Control Related to Engagement Supervision and Review
AS 1220, *Engagement Quality Review*	A - Deficiencies in the System of Quality Control Related to Testing Internal Control B - Deficiencies in the System of Quality Control Related to Engagement Supervision and Review
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	A - Deficiencies in the System of Quality Control Related to Testing Internal Control
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	A - Deficiencies in the System of Quality Control Related to Testing Internal Control

22 This table does not necessarily include reference to every standard that may have been related to the criticisms or potential defects that are included in Part II.

PCAOB Standards	Part II Section
QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*	A - Deficiencies in the System of Quality Control Related to Testing Internal Control B - Deficiencies in the System of Quality Control Related to Engagement Supervision and Review * * * *
QC 40, *The Personnel Management Element of a Firm's System of Quality Control-Competencies Required by a Practitioner-in-Charge of an Attest Engagement*	B - Deficiencies in the System of Quality Control Related to Engagement Supervision and Review

* * * *

APPENDIX A

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.[23]

[23] 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.

RSM US LLP

1 South Wacker
Suite 800
Chicago, IL 60606

June 7, 2017

Ms. Helen A. Munter
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K. Street NW
Washington, DC 20006

Re: Response to Part I of the Public Company Accounting Oversight Board (PCAOB) Draft Report on 2016 Inspection of RSM US LLP

Dear Ms. Munter:

We are pleased to provide our response to Part I of the PCAOB's Draft Report on the 2016 Inspection of RSM US LLP dated May 12, 2017 ("Draft Report").

We have thoroughly evaluated the matters described in Part I of the Draft Report and have taken appropriate actions to address the findings in accordance with PCAOB auditing standards and our policies.

We support the PCAOB's inspection process and believe that it helps us improve the quality of our audit engagements. RSM US LLP is committed to using the inspection comments and observations to improve our system of quality controls. We have a long history of audit quality founded on our commitment to integrity, objectivity, and excellence.

We appreciate the opportunity to provide our response to the Draft Report and remain committed to working with the PCAOB to improve audit quality.

Very Truly Yours,

RSM US LLP

RSM US LLP

APPENDIX B

AUDITING STANDARDS REFERENCED IN PART I.A

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 1105, *Audit Evidence*		
SUFFICIENT APPROPRIATE AUDIT EVIDENCE		
Using Information Produced by the Company		
AS 1105.10	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] ▪ Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and ▪ Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.	Issuer A
Footnote to AS 1105.10 [3] When using the work of a specialist engaged or employed by management, see AS 1210, *Using the Work of a Specialist.* When using information produced by a service organization or a service auditor's report as audit evidence, see AS 2601, *Consideration of an Entity's Use of a Service Organization*, and for integrated audits, see AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.		

AS 1210, *Using the Work of a Specialist*		
USING THE FINDINGS OF THE SPECIALIST		
AS 1210.12	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.	Issuers B and E

AS 2101, *Audit Planning*		
PLANNING AN AUDIT		
Multi-Location Engagements		
AS 2101.11	In an audit of the financial statements of a company with operations in multiple locations or business units,[13] the auditor should determine the extent to which audit procedures should be performed at selected locations or business units to obtain sufficient appropriate evidence to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. This includes determining the locations or business units at which to perform audit procedures, as well as the nature, timing, and extent of the procedures to be performed at those individual locations or business units. The auditor should assess the risks of material misstatement to the consolidated financial statements associated with the location or business unit and correlate the amount of audit attention devoted to the location or business unit with the degree of risk of material misstatement associated with that location or business unit.	Issuer A

<table>
<tr><td colspan="3">AS 2101, Audit Planning</td></tr>
<tr><td colspan="3"><u>Footnote to AS 2101.11</u>

[13] The term "business units" includes subsidiaries, divisions, branches, components, or investments.</td></tr>
<tr><td>AS 2101.12</td><td>Factors that are relevant to the assessment of the risks of material misstatement associated with a particular location or business unit and the determination of the necessary audit procedures include:

a. The nature and amount of assets, liabilities, and transactions executed at the location or business unit, including, e.g., significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature ("significant unusual transactions") executed at the location or business unit;[14]
b. The materiality of the location or business unit;[15]
c. The specific risks associated with the location or business unit that present a reasonable possibility[16] of material misstatement to the company's consolidated financial statements;
d. Whether the risks of material misstatement associated with the location or business unit apply to other locations or business units such that, in combination, they present a reasonable possibility of material misstatement to the company's consolidated financial statements;
e. The degree of centralization of records or information processing;
f. The effectiveness of the control environment, particularly with respect to management's control over the exercise of authority delegated to others and its ability to effectively supervise activities at the location or business unit; and
g. The frequency, timing, and scope of monitoring activities by the company or others at the location or business unit.

Note: When performing an audit of internal control over financial reporting, refer to Appendix</td><td>Issuer A</td></tr>
</table>

AS 2101, *Audit Planning*		
	B, Special Topics, of AS 2201[17] for considerations when a company has multiple locations or business units.	

Footnotes to AS 2101.12

[14] Paragraph .66 of AS 2401, *Consideration of Fraud in a Financial Statement Audit.*

[15] AS 2105.10 describes the consideration of materiality in planning and performing audit procedures at an individual location or business unit.

[16] There is a reasonable possibility of an event, as used in this standard, when the likelihood of the event is either "reasonably possible" or "probable," as those terms are used in the FASB Accounting Standards Codification, Contingencies Topic, paragraph 450-20-25-1.

[17] AS 2201.B10-.B16.

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
USING A TOP-DOWN APPROACH		
Selecting Controls to Test		
AS 2201.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, B, C, D, and F
TESTING CONTROLS		
Testing Design Effectiveness		
AS 2201.42	The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements.	Issuers A, B, C, D, E, and F

AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
	Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.	
Testing Operating Effectiveness		
AS 2201.44	The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively. Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.	Issuers A, B, C, D, E, and F
Relationship of Risk to the Evidence to be Obtained		
AS 2201.48	When the auditor identifies deviations from the company's controls, he or she should determine the effect of the deviations on his or her assessment of the risk associated with the control being tested and the evidence to be obtained, as well as on the operating effectiveness of the control. Note: Because effective internal control over financial reporting cannot, and does not, provide absolute assurance of achieving the company's	Issuer C

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	control objectives, an individual control does not necessarily have to operate without any deviation to be considered effective.	
EVALUATING IDENTIFIED DEFICIENCIES		
AS 2201.62	The auditor must evaluate the severity of each control **deficiency** that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses as of the date of management's assessment. In planning and performing the audit, however, the auditor is not required to search for deficiencies that, individually or in combination, are less severe than a material weakness.	Issuer B
AS 2201.63	The severity of a deficiency depends on – ▪ Whether there is a reasonable possibility that the company's controls will fail to prevent or detect a misstatement of an account balance or disclosure; and ▪ The magnitude of the potential misstatement resulting from the deficiency or deficiencies.	Issuer B
AS 2201.68	The auditor should evaluate the effect of compensating controls when determining whether a control deficiency or combination of deficiencies is a material weakness. To have a mitigating effect, the compensating control should operate at a level of precision that would prevent or detect a misstatement that could be material.	Issuers C and F
APPENDIX B - Special Topics		
USE OF SERVICE ORGANIZATIONS		
AS 2201.B19	AS 2601.07 through .16 describe the procedures that the auditor should perform with respect to the activities performed by the service organization. The procedures include -	Issuer E

AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
	a. Obtaining an understanding of the controls at the service organization that are relevant to the entity's internal control and the controls at the user organization over the activities of the service organization, and b. Obtaining evidence that the controls that are relevant to the auditor's opinion are operating effectively.	

AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
AS 2301.08	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuer A
Responses to Fraud Risks		
AS 2301.13	*Addressing Fraud Risks in the Audit of Financial Statements*. In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs .16-.17 of this standard, the auditor should perform tests of those controls.	Issuer A

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
TESTING CONTROLS		
Testing Controls in an Audit of Financial Statements		
AS 2301.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on controls,[12] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire **period of reliance**.[13] However, the auditor is not required to assess control risk at less than the maximum for *all* relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	Issuers A, B, C, and D
Footnotes to AS 2301.16 [12] Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures. [13] Terms defined in Appendix A, *Definitions*, are set in **boldface type** the first time they appear.		
AS 2301.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements*. In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness of a control. The auditor should obtain more persuasive audit evidence from tests of controls the greater the reliance the auditor places on the effectiveness of a control. The auditor also should obtain more persuasive evidence about the effectiveness of controls for each relevant assertion for which the audit approach consists primarily of tests of controls, including situations in which substantive procedures alone cannot provide sufficient appropriate audit evidence.	Issuers A, B, C, and D

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
SUBSTANTIVE PROCEDURES		
AS 2301.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	Issuers A, B, C, and D
Timing of Substantive Procedures		
AS 2301.45	When substantive procedures are performed at an interim date, the auditor should cover the remaining period by performing substantive procedures, or substantive procedures combined with tests of controls, that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. Such procedures should include (a) comparing relevant information about the account balance at the interim date with comparable information at the end of the period to identify amounts that appear unusual and investigating such amounts and (b) performing audit procedures to test the remaining period.	Issuer A

AS 2305, *Substantive Analytical Procedures*		
ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TESTS		
Plausibility and Predictability of the Relationship		
AS 2305.13	It is important for the auditor to understand the reasons that make relationships plausible because data sometimes appear to be related when they are not, which could lead the auditor to erroneous conclusions. In addition, the presence of an unexpected relationship can provide important evidence when appropriately	Issuer A

AS 2305, *Substantive Analytical Procedures*		
	scrutinized.	
AS 2305.14	As higher levels of assurance are desired from analytical procedures, more predictable relationships are required to develop the expectation. Relationships in a stable environment are usually more predictable than relationships in a dynamic or unstable environment. Relationships involving income statement accounts tend to be more predictable than relationships involving only balance sheet accounts since income statement accounts represent transactions over a period of time, whereas balance sheet accounts represent amounts as of a point in time. Relationships involving transactions subject to management discretion are sometimes less predictable. For example, management may elect to incur maintenance expense rather than replace plant and equipment, or they may delay advertising expenditures.	Issuer A
Availability and Reliability of Data		
AS 2305.16	Before using the results obtained from substantive analytical procedures, the auditor should either test the design and operating effectiveness of controls over financial information used in the substantive analytical procedures or perform other procedures to support the completeness and accuracy of the underlying information. The auditor obtains assurance from analytical procedures based upon the consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the analytical procedure. The auditor should assess the reliability of the data by considering the source of the data and the conditions under which it was gathered, as well as other knowledge the auditor may have about the data. The following factors influence the auditor's consideration of the reliability of data for purposes of achieving audit objectives: ▪ Whether the data was obtained from independent sources outside the entity or from sources within the entity ▪ Whether sources within the entity were independent of those who are responsible for the	Issuer A

AS 2305, *Substantive Analytical Procedures*		
	amount being audited ▪ Whether the data was developed under a reliable system with adequate controls ▪ Whether the data was subjected to audit testing in the current or prior year ▪ Whether the expectations were developed using data from a variety of sources	
Precision of the Expectation		
AS 2305.17	The expectation should be precise enough to provide the desired level of assurance that differences that may be potential material misstatements, individually or when aggregated with other misstatements, would be identified for the auditor to investigate (see paragraph .20). As expectations become more precise, the range of expected differences becomes narrower and, accordingly, the likelihood increases that significant differences from the expectations are due to misstatements. The precision of the expectation depends on, among other things, the auditor's identification and consideration of factors that significantly affect the amount being audited and the level of detail of data used to develop the expectation.	Issuers A and B
Investigation and Evaluation of Significant Differences		
AS 2305.20	In planning the analytical procedures as a substantive test, the auditor should consider the amount of difference from the expectation that can be accepted without further investigation. This consideration is influenced primarily by materiality and should be consistent with the level of assurance desired from the procedures. Determination of this amount involves considering the possibility that a combination of misstatements in the specific account balances, or class of transactions, or other balances or classes could aggregate to an unacceptable amount.	Issuer B
AS 2305.21	The auditor should evaluate significant unexpected differences. Reconsidering the methods and factors used in developing the expectation and inquiry of	Issuers A and B

AS 2305, *Substantive Analytical Procedures*		
	management may assist the auditor in this regard. Management responses, however, should ordinarily be corroborated with other evidential matter. In those cases when an explanation for the difference cannot be obtained, the auditor should obtain sufficient evidence about the assertion by performing other audit procedures to satisfy himself as to whether the difference is a misstatement. In designing such other procedures, the auditor should consider that unexplained differences may indicate an increased risk of material misstatement. (See AS 2810.)	

AS 2315, *Audit Sampling*		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AS 2315.19	After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.[3] Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	Issuers A, B, C, and D

AS 2315, *Audit Sampling*		
Footnote to AS 2315.19 [3] Some auditors prefer to think of risk levels in quantitative terms. For example, in the circumstances described, an auditor might think in terms of a 5 percent risk of incorrect acceptance for the substantive test of details. Risk levels used in sampling applications in other fields are not necessarily relevant in determining appropriate levels for applications in auditing because an audit includes many interrelated tests and sources of evidence.		
AS 2315.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuers A, B, C, and D
AS 2315.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample.	Issuers A, B, C, and D

AS 2501, *Auditing Accounting Estimates*		
EVALUATING ACCOUNTING ESTIMATES		
Evaluating Reasonableness		
AS 2501.11	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	Issuers A and C

AS 2501, *Auditing Accounting Estimates*		
	following are procedures the auditor may consider performing when using this approach: a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. 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 (AS 1210, *Using the Work of a Specialist*). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	

AS 2502, *Auditing Fair Value Measurements and Disclosures*		
TESTING THE ENTITY'S FAIR VALUE MEASUREMENTS AND DISCLOSURES		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AS 2502.26	The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether: a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06). b. The fair value measurement was determined using an appropriate model, if applicable. c. Management used relevant information that was reasonably available at the time.	Issuers B and C
AS 2502.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers B and C

AS 2810, *Evaluating Audit Results*		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS 2810.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AS 2815, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"* establishes requirements for evaluating the presentation of the financial statements. AS 2820, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. 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.	Issuers A and G
AS 2810.31	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. Note: According to AS 3101, if the financial statements, including the accompanying notes, fail to disclose information that is required by the	Issuer G

AS 2810, *Evaluating Audit Results*		
	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]	
Footnote to AS 2810.31 18 AS 3101.41-.44.		