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Report on

2017 Inspection of RSM US LLP
(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

November 19, 2018

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. 104-2019-040

2017 INSPECTION OF RSM US LLP

Preface

In 2017, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm RSM US LLP ("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.

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EXECUTIVE SUMMARY

This summary sets out certain key information from the 2017 inspection of RSM US LLP ("the Firm"). The inspection procedures included reviews of portions of 15 issuer audits performed by the Firm. Twelve of the 15 engagements were integrated audits of both internal control and the financial statements. Part I.C of this report provides certain demographic information about the audits inspected and Part I.D describes the general procedures applied in the PCAOB's 2017 inspections of annually inspected registered firms.

The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. In 11 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 of Audit Deficiencies on Audit Opinions

Of the 11 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 nine audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the nine audits in which substantive testing deficiencies were identified, five 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
Audits for which deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	4 Audits: Issuers B, C, D, and E
Deficiencies included in Part I.A related to the ICFR audit only	2 Audits: Issuers A and H
Audits for which deficiencies included in Part I.A related to the financial statement audit only	5 Audits: Issuers F, G, I, J, and K
Total	11

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 four 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 significant assumptions or data that the issuer used in developing an estimate	6 Audits: Issuers C, D, E, F, G, and J
Failure to sufficiently test controls over or sufficiently test the accuracy and completeness of issuer-produced data or reports	6 Audits: Issuers B, D, E, H, I, and K
Design of substantive procedures, including sample sizes	5 Audits: Issuers B, C, D, E, and F

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 two 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	5 Audits: Issuers A, B, H, I, and J
Loans, including the allowance for loan losses	4 Audits: Issuers C, D, E, and F

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1] for the inspection from May 2017 to August 2017. The inspection team performed field work at the Firm's National Office and at five of its 91 U.S. practice offices.[2]

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 most directly relate to the deficiencies and do not include all standards that apply 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 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.

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[1] 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.

[2] This represents the Firm's total number of practice offices; however, approximately 46 of the Firm's practice offices have primary responsibility for issuer audit clients.

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.[3]

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.11, below.

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[3] 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.

Audit Deficiencies

A.1. Issuer A

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The issuer used various service organizations to assist with initiating, processing, and recording revenue and reserves, and to provide revenue and reserve-related system-generated reports.

- The Firm failed to sufficiently test the issuer's controls over uncollected revenue. Specifically, the Firm selected for testing a control over due and unpaid revenue consisting of management's review of accruals for reasonableness. The Firm's procedures to test this control consisted of inquiring of management, comparing the accrued revenue amount for one quarter between various service organization reports, and the general ledger, and noting a signature as evidence that the review occurred. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the control owner, including the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- The Firm failed to sufficiently test the issuer's controls over reserves. Specifically,

  - The Firm identified eight controls over the determination of the reserves consisting of review by management and management-employed specialists ("MES") of reserve calculations and the related supporting documentation, and MES' review of reserve trends. The Firm's procedures to test these controls consisted of inquiring of management and inspecting memoranda and reports, including supporting documentation, and in some cases comparing the amounts included in the memoranda and reports to supporting documentation. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the control owners, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

  - To develop the significant assumptions that it used to determine its reserves in the controls discussed above, the issuer produced supporting information, schedules, and reports, which relied, in part, on revenue and reserve data. The Firm identified five controls over that supporting information consisting of management's review of reconciliations and comparison of data to supporting documentation, and review of data consistency amongst the supporting information. The Firm's procedures to test these controls consisted of inquiring of management and inspecting the reconciliations and certain related supporting documentation, including comparing amounts to determine whether the amounts were reconciled and were consistent amongst the supporting information. For four of these controls, the Firm failed to ascertain and evaluate the nature of the review procedures performed by the control owners, including the criteria used to identify items for follow up. In addition, for all five of these controls, the Firm failed to determine whether items requiring follow up were resolved. (AS 2201.42 and .44)

  - The Firm identified four controls over the recording of the calculated reserve amounts, consisting of management's and MES's reviews and verification of journal entry data to supporting documentation; and review of data consistency. The Firm's procedures to test these controls included either inspecting the files containing the calculated reserves supporting documentation and review of data consistency or noting evidence of review. For two of these controls, the Firm failed to ascertain and evaluate the criteria used by the control owners to identify items for follow-up. For one control, the Firm failed to ascertain and evaluate the control activities performed by the control operator. For all four controls, the Firm failed to evaluate the control owners' procedures to determine whether items requiring follow up were resolved. (AS 2201.42 and .44)

- The issuer used various service organizations to assist with initiating, processing, and recording revenue and reserves, and to provide revenue and reserve-related system-generated reports. The Firm failed to perform sufficient procedures to test controls over the service organizations, as follows –

  The Firm selected for testing a control over the accuracy and completeness of the service organizations' information and reports that included the issuer's periodic evaluation of those service organizations' initiation, processing, and recording of revenue and reserve activity. The Firm noted this evaluation was performed by the issuer's internal audit department ("IA") and by an issuer-engaged external party. The Firm's procedures to test this control consisted of inquiring of management and reading one of the agreed upon procedures reports ("AUP reports") prepared by the issuer-engaged external party to obtain an understanding of the purpose and scope of the agreed-upon procedures. In addition, the Firm selected two service organization agreed-upon procedures engagements performed by the issuer-engaged external party and (1) read the AUP reports and evaluated the timeliness of the reports and management's responses to the findings and (2) inspected documentation of the issuer's management follow-up procedures. Further, for one service organization, the Firm read IA's testing documentation and results memorandum noting that IA had identified exceptions. The Firm failed to perform procedures to ascertain and evaluate the issuer's approach to selecting service organizations for periodic evaluation, the frequency of the periodic evaluations, and the nature and extent of the agreed upon procedures performed. In addition, with respect to the Firm's testing of IA's procedures regarding the service organizations, the Firm failed to perform procedures to determine whether IA had evaluated management's follow up to the audit findings. (AS 2201.42 and .44)

- The Firm identified control deficiencies in its testing of information technology general controls ("ITGCs") related to security administration, logical security, and change management. The Firm identified two controls related to the service organizations' information and reports, which supported the issuer's recording of revenue and reserve activity as described above. The Firm believed these controls, which consisted of management's reconciliation of service organization reports to the general ledger, bank records, and issuer records, would compensate for these deficiencies. The Firm's conclusion that these two controls had a mitigating effect was inappropriate because of the deficiencies in the Firm's testing of those controls. (AS 2201.68)

In addition, the Firm failed to sufficiently test the issuer's controls over investments. Specifically, the Firm selected for testing a control in which the chief financial officer ("CFO") reviewed and approved the accounting treatment memorandum related to equity method investments. To test this control, the Firm selected one transaction that occurred during the year related to an equity method investment transaction to inspect the issuer-prepared accounting treatment memorandum for evidence of the CFO's approval to determine whether the control had operated. The

Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the CFO, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

A.2. Issuer B

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. The issuer used various service organizations to assist with initiating, processing, and recording revenue and reserves, and to provide revenue and reserve-related system-generated reports.

- The Firm failed to sufficiently test the issuer's controls over revenue, as follows –

    - The Firm selected for testing five automated application controls placed in operation within three service organizations' applications. The Firm's procedures to test these controls consisted of inquiring of management and evaluating the service organization controls 1 ("SOC 1") reports for two of the three service organizations. The Firm failed to perform sufficient procedures to determine whether the identified automated application controls were implemented and operating effectively at the service organizations, as the SOC 1 reports for the two service organizations did not include within its scope the automated application controls; and it did not perform other procedures to test the automated application controls at any of the service organizations. (AS 2201.39 and .B19)

    - The Firm selected for testing a configuration control related to a service organization's system, which operated over the largest portion of the issuer's revenue, intended to ensure the accurate calculation of revenue. The Firm used a benchmarking strategy implemented by IA in prior years. The Firm's procedures were limited to reviewing documentation of IA's walkthrough procedures performed during the year prior to the year under audit. The Firm failed to perform procedures to determine whether the configuration control had changed since IA established its prior year baseline. (AS 2201.42, .44, and .B29)

- o The Firm selected for testing two controls consisting of management's review of monthly revenue journal entries and account reconciliations. The Firm's procedures to test these controls consisted of inquiring of management, inspecting documentation of IA's walkthrough procedures, and inspecting an account reconciliation related to a non-revenue account. The Firm, however, failed to ascertain and evaluate the nature of the review procedures performed by the control owners, including the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- The Firm designed its substantive procedures – including its sample sizes – to test the largest portion of the issuer's revenue, based on a level of reliance on controls 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 the Firm used to test revenue were too small to provide the necessary assurance. (AS 2301.16, .18, and .37; AS 2315.19 and .23-.23A)

- The Firm's procedures to test reserves were insufficient. The issuer has reserves for (1) claims that have been filed but unpaid, including a portion thereof for claims that are manually processed ("manual claims reserve"), and (2) claims incurred but not reported ("IBNR"). The Firm's procedures were insufficient in the following respects –

  - o For the total reserve amount, the Firm selected for testing the annual review and approval of the total year-end reserve by the chief executive officer ("CEO") and CFO, which included comparing the MES' estimation of reserves to the issuer-engaged external specialist's estimate. The Firm's procedures to test this control consisted of using the work of IA and reviewing documentation of IA's testing, which included comparing the related journal entry to supporting documentation. The Firm failed to ascertain and evaluate the nature of the review procedures performed by the CEO and CFO, including the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.39, .42, and .44)
  - o For the manual claims reserve component, the Firm identified controls over the issuer's manual claims process. The Firm used the work of IA and reviewed documentation of IA's testing that included testing a sample of claim payments recorded in an issuer-produced spreadsheet to determine whether (1) each manual claim

contained support for the manual claim decision processing, and (2) claim payment amounts in two internal reports were the same and were appropriately reflected against the established reserves. The Firm also compared manual claim reserve amounts to the minimum reserve amount that would have been established in the system for an automated claim. The Firm's procedures to test the controls included re-performing IA's testing for two of its sampled items by tracing claim amounts to supporting documentation and other issuer-produced reports, and comparing claim reserve amounts to minimum reserve amounts. The Firm's procedures were substantive in nature, and neither the Firm's procedures nor IA's work used by the Firm involved evaluating the design and operating effectiveness of the related controls. In addition, the Firm failed to perform procedures to test any controls over the accuracy and completeness of the internal report used in the operations of these controls. (AS 2201.39, .42, and .44)

- For the claims that have been filed but unpaid and the IBNR reserves, the Firm selected for testing two controls that consisted of management's review of the account reconciliations related to claims that have been filed but unpaid and the IBNR reserves. The Firm's procedures to test these two controls were limited to inspecting a sample of account reconciliations to determine whether the reconciliations had been reviewed by appropriate personnel. The Firm failed to ascertain and evaluate the nature of the review procedures performed by the control owners, including the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

- The Firm selected for testing a control over the review and approval of certain claims reported to counterparties to contracts with the issuer ("counterparties"). The Firm's procedures to test this control consisted of using the work of IA and reviewing documentation of IA's testing, which included determining whether the events associated with claims reported to the counterparties were properly classified in the service organization's claims management system and properly reflected in the issuer's reporting to the counterparties. The Firm failed to perform procedures to ascertain and evaluate the nature of the review procedures performed by the control owner. (AS 2201.42 and .44)

- o The Firm selected for testing certain system configuration controls over the service organization's claims management system. The Firm's procedures to test these controls consisted of reviewing IA's testing and inspecting supporting documentation for one claim type within the system's test environment. IA observed a user perform certain processes and recorded the system's response for those processes to test the design and operation effectiveness of the controls. The Firm failed to sufficiently test these configuration controls, as follows -

    - ▪ With respect to the service organization's claims management system, the Firm failed to (1) obtain an understanding of the controls that were relevant to the issuer's internal control and the controls at the issuer over the activities of the system and (2) perform procedures to obtain evidence that the controls that were relevant to the Firm's opinion were operating effectively. (AS 2201.B19)

    - ▪ By limiting its testing to one transaction in the system's test environment, the Firm failed to test the configuration for each transaction type used by the issuer. (AS 2201.42 and .44)

    - ▪ The Firm failed to test the controls over the accuracy and completeness of information transferred into the service organization's claims management system from the various revenue systems. (AS 2201.39)

  As a result of the deficiencies in the Firm's testing of controls over the service organization's claims management system noted above, the Firm failed to perform sufficient procedures to test controls over the accuracy and completeness of the various claim activity reports and information from that system used in the operation of the above controls. (AS 2201.39)

In addition, the Firm failed to perform sufficient procedures to test the issuer's controls over the valuation of investments, as follows –

- The Firm selected for testing two controls related to the valuation of investments, substantially all of which were reported as Level 2 within the hierarchy set forth in FASB ASC Topic 820*, Fair Value Measurement*. With respect to the fair values of investments, management reconciled fair values to reports provided by the issuer's external record keeper. With respect to the impairment of investments, management reviewed an issuer-prepared investment impairment analysis to determine whether investments in an unrealized loss position were impaired. The Firm used the work of IA by reviewing IA's walkthrough documentation and independently inspecting selected reconciliation documentation to determine whether the controls had operated, and comparing investment fair values in the investment impairment analysis to fair values provided by the external record keeper. The Firm failed to sufficiently test controls over the valuation of investments, as follows –

- o With respect to the control over the fair values of investments, the Firm failed to perform procedures to identify and test any controls related to the issuer's determination that the fair value measurements were in conformity with Generally Accepted Accounting Principles ("GAAP"). (AS 2201.39)

- o With respect to the control over the impairment of investments, the Firm failed to ascertain and evaluate the nature of the review procedures performed by the control owner, including the specific expectations applied in the reviews, the criteria used to identify items for follow up, and the resolution of such matters. (AS 2201.42 and .44)

A.3. <u>Issuer C</u>

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 in the following respects to perform sufficient procedures related to the allowance for loan losses ("ALL") –

- The Firm failed to perform sufficient procedures to test controls over the ALL, as follows –
  - o The Firm selected three controls over problem loan identification, including the reasonableness of the assigned loan grades. The Firm tested two controls that consisted of the officer loan committee's review of watch list loans in excess of a threshold to conclude on the reasonableness of the assigned loan grade and the loan committee's review of delinquent loans to determine if the loans were included on the watch list. The third control consisted of loan officers' ongoing monitoring of loans. To test this control, the

Firm intended to design a sample that would be used for dual purposes: as a test of control and as a substantive test. For the substantive sample size, the Firm selected a sample of watch list loans in order to achieve a certain minimum coverage of total watch list loans and selected a sample of loans for the remaining commercial loan population (including the untested watch list loans). The Firm reduced its sample size for the test of controls based on the premise that it was testing two or more continuous controls for the same assertion, where no significant risks had been identified, and no deviations were expected. To evaluate the sufficiency of the dual-purpose sample size, the Firm noted it used the greater of its substantive or control sample sizes.

For each loan relationship selected, the Firm's procedures consisted of inspecting loan files to determine whether the loan files included (1) a recent loan officer's annual review write-up for individual loans greater than $0.5 million or loan relationships with aggregate exposure greater than $1 million per issuer policy, (2) recent financial statements, (3) report on the condition of the collateral, (4) evidence of loan officer's correspondence with the borrower, and (5) the loan officer's conclusion on whether the assigned loan grade was appropriate based on the loan file information and loan policy guidelines. In addition, the Firm concluded on the reasonableness of the assigned loan grade. The Firm's procedures to test the loan officers' ongoing monitoring of loans control were insufficient, as follows -

- The Firm failed to (1) ascertain and evaluate the nature and extent of the loan officers' ongoing monitoring procedures for individual loans less than $0.5 million and loan relationships with aggregate exposure of less than $1 million when a formal annual review write-up was not required because the other two controls tested did not address the reasonableness of assigned loan grades of such loans and (2) evaluate whether the loan officers were capable of impartially identifying new or increased credit risks, and determining changes to assigned loan grades for loans that those officers initially originated. (AS 2201.42 and .44)

- In evaluating the sufficiency of the sample size for testing the control, the Firm failed to appropriately consider the necessary assurance needed from the sampling procedure as it failed to establish that any of the other controls tested would prevent or detect misstatements related to assigned loan grades of commercial loans not included on the watch list. In addition, the Firm determined its sample size assuming zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades for commercial loans and contrary evidence, such as changes in assigned loan grades and loan file exceptions related to outdated financial information, indicating that the likely rate of deviations was greater than zero. The resulting sample size was too small to provide the necessary assurance. (AS 2201.44; AS 2315.38)

- The Firm designed its substantive procedures to test the ALL – including the sample size to test the reasonableness of assigned loan grades – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls that are discussed above. In addition, the Firm failed to appropriately consider other relevant factors when determining the sample size for its substantive test of the reasonableness of assigned loan grades, as it -

    - failed to determine whether the aggregate monetary amount of the tolerable deviations inherently being accepted in its sample size determination was less than the tolerable misstatement for the population;

    - assumed zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades and contrary evidence, such as changes in assigned loan grades and loan file exceptions related to outdated financial information in the loan files, indicating that the likely rate of deviations was greater than zero;

    - assumed that the loan population subject to the issuer's loan grading system was homogenous; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the diverse nature of the loan portfolio that included commercial real estate loans, commercial and industrial loans, commercial construction loans, and land development and other land loans; and

- o assumed that the other substantive procedures that were limited to testing the reasonableness of assigned loan grades of watch list loans, including impaired loans, provided assurance over the entire population of commercial loans.

As a result, the sample size the Firm used to test the reasonableness of assigned loan grades was too small to provide the necessary assurance. (AS 2301.16, .18, and .37; AS 2315.16, .18-.19, and .23-.23A; AS 2501.11)

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 in the following respects to perform sufficient procedures related to the ALL –

- The Firm failed to perform sufficient procedures to test controls over the ALL, as follows -

  - o The Firm selected for testing three controls over problem loan identification, including assigned loan grades, consisting of loan officers' ongoing monitoring of loans, Management Loan Review Committee's ("MLRC") periodic review of various loan portfolio monitoring reports, and the Credit Director's ("CD") monthly review of loan modifications to determine whether all troubled debt restructurings were appropriately identified.

    For the loan officers' ongoing monitoring of loans related to the reasonableness of assigned loan grades, the Firm intended to design a sample that would be used for dual purposes. For the substantive sample size, the Firm selected a sample of watch list loans in order to achieve a certain minimum coverage of total watch list loans and selected a sample of loans for the remaining commercial loan population (including the untested watch list loans). The Firm reduced its sample size for the test of controls based on the premise that it was testing two or more continuous controls for the same assertion, where no significant risks had been identified, and no deviations were expected. To evaluate the sufficiency of the dual-purpose sample size, the Firm noted it used the greater of its substantive or control sample sizes. For each loan selected, the Firm inspected the loan files for evidence of loan officer write-ups or notes, recent financial statements, and loan officer's inquiries of the borrower. In addition, the Firm concluded on the reasonableness of the assigned loan grade.

For the MLRC control, the Firm's procedures consisted of inquiring of management, reading committee minutes; and inspecting supporting documents noting no questions or concerns were raised by the MLRC.

For the CD monthly review of loan modifications, the Firm's procedures consisted of inquiring of management and inspecting a Change-In–Terms report for evidence of review to determine whether the control had operated. In addition, the Firm selected a sample of loans from the Change-In-Terms report and inspected documentation to re-perform the control.

The Firm's procedures for testing these controls were insufficient, as follows -

- For the loan officers' ongoing monitoring of loans control, the Firm failed to ascertain and evaluate the nature and extent of the loan officers' monitoring procedures and evaluate whether the loan officers were capable of impartially identifying new or increased credit risks, and determining changes to assigned loan grades, for loans that those officers initially originated. (AS 2201.42 and .44)
- For the MLRC control, the Firm failed to ascertain and evaluate the nature of the review procedures performed by the MLRC, including the criteria used in reviewing the various loan portfolio monitoring reports to identify problem loans and whether the loans meeting such criteria were resolved. (AS 2201.42 and .44)

- In evaluating the sufficiency of the sample sizes for testing the loan officers' ongoing monitoring of loans control and the CD's review of loan modifications control, the Firm failed to appropriately consider the necessary assurance needed from the sampling procedures as it failed to establish that any of the other controls tested would prevent or detect misstatements related to either control. In addition, with respect to the loan officers' ongoing monitoring of loans control, the Firm determined its sample size assuming zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades and contrary evidence, such as changes in assigned loan changes, and loan file documentation exceptions, including outdated financial information, indicating that the likely rate of deviations was greater than zero. The resulting sample size was too small to provide the necessary assurance. (AS 2201.44; AS 2315.38)

  - The MLRC and CD review controls used reports produced from the issuer's report writing tool. To determine whether there were any changes during the year under audit to these reports, the Firm used the issuer's ticketing system, which generated a listing of changes. The Firm failed to perform procedures to test any controls over the accuracy and completeness of the issuer's ticketing system that was used to identify all changes that occurred during the year under audit. (AS 2201.39)

- The Firm selected one control over the valuation of impaired loans that consisted of management's quarterly review of collateral reports to determine whether the most recent appraisal information for collateral securing impaired loans had been updated in the issuer's reporting software. The Firm's procedures to test this control were limited to inquiring of management and inspecting two collateral reports noting signoff, notes, and tick-marks to determine whether the control had operated. The Firm failed to perform procedures to test any control that addressed whether the related fair value measurements of collateral used in determining specific reserves for impaired loans complied with GAAP, whether the valuation methods were appropriate, and whether the significant assumptions were reasonable. In addition, the Firm failed to perform procedures to test any controls that were intended to ensure that the collateral reports used in the operation of the control included all impaired loans. (AS 2201.39)

  - The Firm's procedures to test controls over the general reserve component and the ALL calculation included testing a control that consisted of management's quarterly tie out of the ALL calculation to supporting documentation. This control used various reports, including manually-prepared spreadsheets and system-generated reports. The Firm's procedures to test this control consisted of inquiring of management, inspecting the ALL calculation and supporting documentation noting signoffs, notes and tick-marks, and re-performing the control. The Firm, however, failed to perform procedures to test any controls over the accuracy and completeness of the manually-prepared spreadsheets and system-generated reports used in the operation of this control. (AS 2201.39)

- The Firm designed its substantive procedures to test the ALL – including the sample size to test the reasonableness of assigned loan grades – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls that are discussed above. In addition, the Firm failed to appropriately consider other relevant factors when determining the sample size for its substantive test of the reasonableness of assigned loan grades, as it -

  - failed to determine whether the aggregate monetary amount of the tolerable deviations inherently being accepted in its sample size determination was less than the tolerable misstatement for the population;

  - assumed zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades for commercial loans and contrary evidence, such as changes in assigned loan changes, and loan file documentation exceptions, including outdated financial information, indicating that the likely rate of deviations was greater than zero;

  - assumed that the loan population subject to the issuer's loan grading system was homogenous; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the diverse nature of the loan portfolio that included commercial real estate loans, commercial and industrial loans, and commercial construction loans; and

- o assumed that the other substantive procedures that were limited to testing the reasonableness of assigned loans grades of watch list loans, including impaired loans, provided assurance over the entire population of commercial loans.

As a result, the sample size the Firm used to test the reasonableness of assigned loan grades was too small to provide the necessary assurance. (AS 2301.16, .18, and .37; AS 2315.16, .18-.19, and .23-.23A; AS 2501.11)

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 it failed in the following respects to perform sufficient procedures related to ALL –

- The Firm failed to perform sufficient procedures to test controls over the ALL, as follows –

  - o The Firm selected for testing one control over the reasonableness of assigned loan grades consisting of the issuer's credit administration's ("CA") oversight of the collection of updated financial information and the evaluation of the reasonableness of assigned loan grades on at least an annual basis. This control was implemented during the third quarter of the year under audit to remediate a significant deficiency identified in the prior year related to ineffective controls over problem loan identification. The Firm represented that documentation of CA's review control consisted of a loan grade change form for those loans that had a change in the assigned loan grade based on CA's review or the absence of a loan grade change form when no change in assigned loan grade occurred. To test CA's review control, the Firm used the work of the issuer's outsourced IA that included testing 25 loans. The Firm reperformed IA's work on two loans. In addition, the Firm selected an additional five loans to test and for all seven loans selected, the Firm (1) performed procedures to determine whether the loan and any related covenants were properly reflected in the issuer's loan covenant and documentation tracking system; (2) determined whether the tracking system properly reflected documentation received and due, and if necessary the loan officer had contacted the borrower regarding any documentation due; (3) inspected the financial information to determine whether the CA's financial analysis was accurate; and (4) recalculated any required covenants to determine whether the tracking system properly reflected compliance with those covenants; and for three of the seven loans tested that did not comply with the covenants, determined whether the loan was included in the tracking system exception report and cleared in a timely manner.

The Firm reduced its sample size for the test of controls based on the premise that it was testing two or more continuous controls for the same assertion, where no significant risks had been identified, and no deviations were expected. The Firm's procedures for testing the CA review control were insufficient, as follows -

- The audit documentation did not demonstrate, and there was no persuasive other evidence, that any of the other controls tested would prevent or detect misstatements related to assigned loan grades of commercial loans. In addition, the Firm determined its sample size assuming zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades, the lack of historical experience with the newly implemented control that was intended to remediate a significant deficiency, and contrary evidence, such as changes in assigned loan grades and loan file documentation exceptions, indicating that the likely rate of deviations was greater than zero. The resulting sample size was too small to provide the necessary assurance. (AS 2201.44; AS 2315.38)

- The Firm failed to obtain evidence that the CA's review control was designed to include an evaluation of the reasonableness of the assigned loan grade to address the objective of an effective loan review system over assigned loan grades, including whether it operated as designed over all of the loans subject to the loan review system. In addition, the Firm failed to identify and evaluate the control testing procedures performed by IA and used by the Firm in support of its conclusion related to the control. (AS 2201.42 and .44; AS 2605.24 and .26)

- The Firm failed to perform procedures to identify and test any controls over the accuracy and completeness of the tracking system information and financial information analyses used in the operation of this control. (AS 2201.39)

- The Firm designed its substantive procedures to test the ALL – including the sample size to test the reasonableness of assigned loan grades – without considering other relevant factors when determining the sample size for its substantive test of the reasonableness of assigned loan grades, as it -

  - failed to determine whether the aggregate monetary amount of the tolerable deviations inherently being accepted in their sample size determination was less than the tolerable misstatement for the population;

  - assumed zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades for commercial loans, the lack of historical experience with the newly implemented control that was intended to remediate a significant deficiency, and contrary evidence, such as changes in assigned loan grades and loan file documentation exceptions, indicating that the likely rate of deviations was greater than zero;

  - assumed that the loan population subject to the issuer's loan grading system was homogenous; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the diverse nature of the loan portfolio that included commercial real estate loans – owner occupied and others, commercial loans – secured and unsecured loans, and residential mortgage multiple family loans; and

  - assumed that the other substantive procedures that were limited to testing the reasonableness of assigned loan grades of watch list loans, including impaired loans, and significant risk segment loans, provided assurance over the entire population of commercial loans.

As a result, the sample size the Firm used to test the reasonableness of the assigned loan grades was too small to provide the necessary assurance. (AS 2301.16, .18, and .37; AS 2315.16, .18-.19, and .23-.23A; AS 2501.11)

A.6. Issuer F

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as it failed to perform sufficient procedures related to ALL, as follows -

- The Firm placed reliance on controls over the ALL, including the reasonableness of assigned loan grades. The Firm selected for testing two controls over the reasonableness of assigned loan grades. The Firm tested one control that consisted of the Credit Administrative Officer's review of past due loans to monitor for potential problem loans. The other control consisted of the loan officers' ongoing monitoring of loans. With respect to this control, the Firm intended to design a sample that would be used for dual purposes. For the substantive sample size, the Firm selected: (1) four watch list loans in order to achieve a minimum coverage of total watch list loans, (2) four significant risk segment loans in order to achieve a minimum of ten percent coverage of total significant risk segment loans when reliance is placed on controls, (3) a sample of ten loans from the population of loans not previously selected (including untested watch list and significant risk segment loans), when reliance is placed on controls and no significant risks have been identified, and (4) seven loans from the remaining untested commercial loan population. The Firm's dual-purpose sample size was determined based on the premise that it was testing two or more continuous controls for the same assertion, where no significant risks had been identified, and no deviations were expected.

  For each loan selected, to determine whether the loan was being appropriately monitored as intended by the control, the Firm's procedures consisted of inspecting the loan file for a recent loan officer write-up or notes, a loan officer's analysis of recent financial statements, evidence of the loan officer's inquiries of the borrower, and a loan officer's review of loan covenant calculations. In addition, the Firm concluded on the reasonableness of the assigned loan grade and whether it complied with the issuer's guidelines. The Firm's procedures for testing the loan officers' ongoing monitoring of loans control were insufficient, as follows -

- o The Firm failed to ascertain and evaluate the nature and extent of the loan officers' monitoring procedures and evaluate whether the loan officers were capable of impartially identifying new or increased credit risks, and determining changes to assigned loan grades, for non-past due loans that those officers initially originated. (AS 2301.16 and .18)

- o The Firm failed to determine that the other control tested would prevent or detect misstatements related to assigned loan grades of commercial loans that are not past due. In addition, the Firm determined its sample size assuming zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades and contrary evidence, such as changes in assigned loan changes, and loan file documentation exceptions, including outdated financial information, indicating that the likely rate of deviations was greater than zero. The resulting sample size was too small to provide the necessary assurance. (AS 2315.38)

- With respect to the Firm's substantive sample sizes, the Firm failed to appropriately consider the relevant factors for determining the sample size for its substantive test of assigned loan grades as it (1) failed to determine whether the aggregate monetary amount of the tolerable deviations inherently being accepted in its sample size determination was less than the tolerable misstatement for the population; (2) failed to support its control reliance used in determining its substantive sample size due to the deficiencies related to its control testing described above; (3) assumed zero deviations; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the highly subjective nature of assigning loan grades for commercial loans and contrary evidence, such as changes in assigned loan changes, and loan file documentation exceptions, including outdated financial information, indicating that the likely rate of deviations was greater than zero; (4) assumed that the loan population subject to the issuer's loan grading system was homogenous; however, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm had considered the diverse nature of the loan portfolio that included commercial real estate loans, commercial loans, commercial construction loans, and land and land development loans; and (5) assumed that the other substantive procedures that were limited to testing the reasonableness of assigned loan grades of watch list loans, and significant risk segment loans provided assurance over the entire population of commercial loans. As a result, the sample size the Firm used to test the reasonableness of assigned loan grades was too small to provide the necessary assurance. (AS 2301.37; AS 2315.16, .18-.19, and .23-.23A; AS 2501.11)

A.7. Issuer G

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. During the year, the issuer acquired a business with inventory and accounted for this acquisition as a business combination. The issuer-engaged specialist determined the fair value of the acquired inventory using significant assumptions including (1) the wholesale price of the inventory acquired, (2) the quality and condition of the inventory, and (3) the expected gross margin of market participants.

The Firm failed to perform procedures to evaluate the reasonableness of the wholesale price and the quality and condition of the acquired inventory used in determining the fair value of the acquired inventory. In addition, the Firm failed to perform procedures to evaluate whether the gross margin adjustment used to determine the fair value reflected certain factors that were not related to the fair value of the acquired inventory. (AS 2502.26 and .28)

A.8. Issuer H

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR as its procedures to test controls over revenue were insufficient. Specifically, the Firm selected for testing certain controls over revenue consisting of management's review of (1) contractual terms and production reports for consistency with actual revenue recorded, and (2) production reports and reimbursable expenditures, which were inputs to customer invoices. The Firm, however, failed to perform procedures to test any controls over the accuracy and completeness of the issuer-produced production reports used in the performance of the above controls. (AS 2201.39)

A.9. Issuer I

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements as its procedures to test revenue were insufficient. To test a portion of the issuer's revenue from one of its revenue categories, the Firm selected a sample of sales orders from an issuer-produced revenue spreadsheet. For sales orders selected for testing with a fixed fee component, the Firm estimated the issuer's revenue based on the actual hours incurred year to date in proportion to the budgeted hours and compared its estimated revenue amount to the issuer's actual revenue amount included on the revenue spreadsheet. In addition, the Firm compared the actual hours used to calculate the issuer's actual revenue in the revenue spreadsheet to a system-generated screenshot of actual hours incurred from the issuer's project management system. The Firm failed to perform procedures to test the accuracy and completeness of, or test the controls over the accuracy and completeness of, the actual hours incurred obtained from the issuer's project management system used as audit evidence. (AS 1105.10)

A.10. Issuer J

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements as its procedures to test the collectability of accounts receivable were insufficient. Specifically, with respect to one of the issuer's significant customers that was past due and for which no allowance for doubtful accounts was recorded, the Firm failed to consider additional key factors and data, including contradictory evidence regarding the customer's financial condition and an oral agreement to extend the repayment terms, to determine whether the customer had the ability to repay the amounts owed. (AS 2501.10; AS 2810.03)

A.11. Issuer K

In this audit of a defined contribution plan, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements as its procedures to test participant and employer contributions were insufficient. Specifically, in testing the significant inputs used in determining the amount of participant and employer contributions, the Firm failed to perform procedures to test the accuracy and completeness of, or test controls over the accuracy and completeness of, base compensation amounts used in determining participant and employer contribution amounts. (AS 1105.10)

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 I Issuer K	1 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 H	7 13 2 6 3 1
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer B Issuer C Issuer D Issuer E Issuer F	1 1 1 1 2
AS 2315, *Audit Sampling*	Issuer B Issuer C Issuer D Issuer E Issuer F	1 2 2 2 2
AS 2501, *Auditing Accounting Estimates*	Issuer C Issuer D Issuer E Issuer F Issuer J	1 1 1 1 1
AS 2502, *Auditing Fair Value Measurements and Disclosures*	Issuer G	1
AS 2605, *Consideration of the Internal Audit Function*	Issuer E	1
AS 2810, *Evaluating Audit Results*	Issuer J	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 2502, AS 2605, and AS 2810.[4]

	AS 1105	AS 2201	AS 2301	AS 2315	AS 2501
Loans, including ALL		C, D, E	C, D, E, F	C, D, E, F	C, D, E, F
Contributions	K				
Investments		A, B			
IT-related		A			
Reserves		A, B	B	B	
Revenue, including accounts receivable, deferred revenue, and allowances	I	A, B, H	B	B	J

B.3. Audit Deficiencies by Industry

The table below lists the industries[5] 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.[6]

[4] The AS 2502 issue for issuer G related to a business combination. The AS 2605 issue for issuer E related to the ALL. The AS 2810 issue for Issuer J related to accounts receivable.

[5] 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.

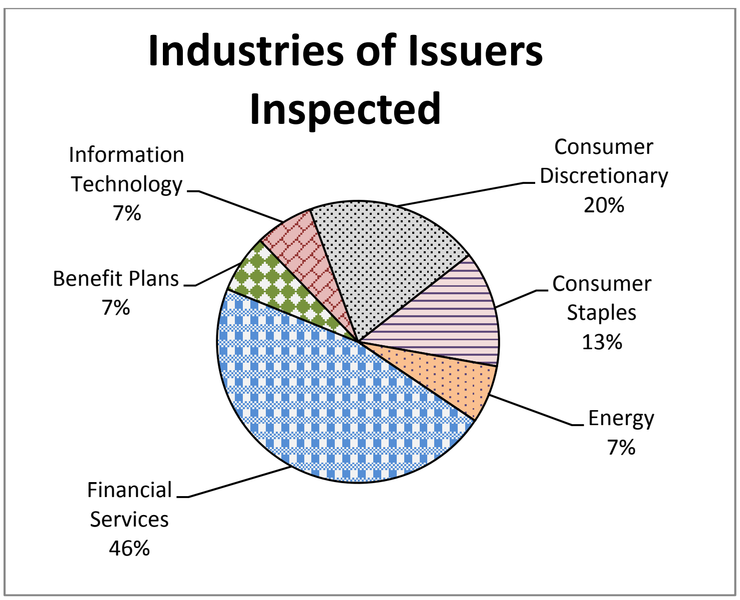
[6] Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

	AS 1105	AS 2201	AS 2301	AS 2315	AS 2501	AS 2502	AS 2605	AS 2810
Benefit Plans	K							
Consumer Staples					J			J
Energy		H						
Financial Services		A, B, C, D, E	B, C, D, E, F	B, C, D, E, F	C, D, E, F	G	E	
Information Technology	I							

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 2017, based on the issuer's industry.[7]

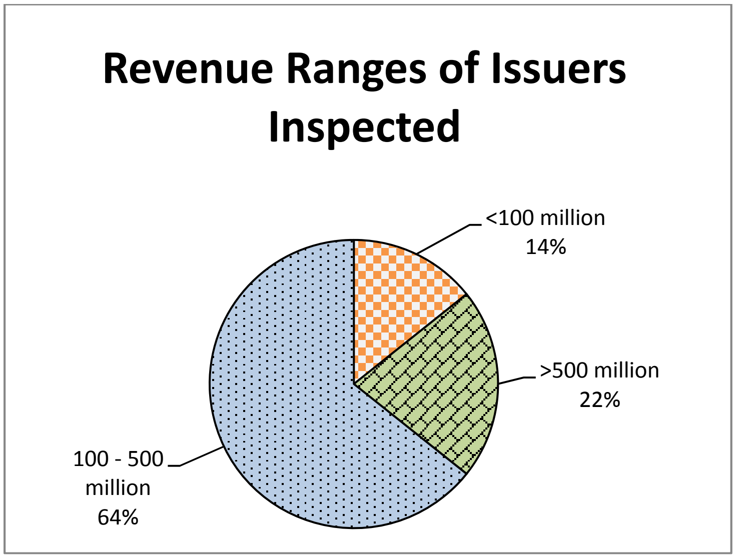


Industry	Number of Audits Inspected	Percentage
Benefit Plans	1	7%
Consumer Discretionary	3	20%
Consumer Staples	2	13%
Energy	1	7%
Financial Services	7	46%
Information Technology	1	7%

[7] See Footnote 5 for additional information on how industry sectors were classified.

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, 14 of the issuers[8] whose audits were inspected in 2017.[9] 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	2	14%
100-500 million	9	64%
>500 million	3	22%

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

8 The chart excludes one issuer whose audit was inspected, a benefit plan, because it has no revenue data.

9 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.

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.[10]

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,[11] as well as a firm's failure to perform,

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

[11] 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

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 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.

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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.

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.[12] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;[13] 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

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[12] 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.

[13] 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.

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.

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

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

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.[14]

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[14] 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

August 24, 2018

Mr. George Botic
Acting Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to Part I of the Public Company Accounting Oversight Board (PCAOB) Draft Report on 2017 Inspection of RSM US LLP

Dear Mr. Botic:

We are pleased to provide our response to Part I of the PCAOB's Draft Report on the 2017 Inspection of RSM US LLP dated July 27, 2018 ("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.

Sincerely,

RSM US LLP

RSM US LLP

APPENDIX B

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.[15]

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.	Issuers I and K
<u>Footnote to AS 1105.10</u> [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*.		

[15] The text presented in this appendix represents the standards as in effect during the applicable audit period.

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 B, D, E, and H
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. 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.	Issuers A, B, C, D, and E
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	Issuers A, B, C, D, and E

AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*		
	with functions related to financial reporting.	
EVALUATING IDENTIFIED DEFICIENCIES		
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.	Issuer A
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 - 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.	Issuer B
BENCHMARKING OF AUTOMATED CONTROLS		
AS 2201.B29	If general controls over program changes, access to programs, and computer operations are effective and continue to be tested, and if the auditor verifies that the automated application control has not changed since the auditor established a baseline (*i.e.*, last tested the application control), the auditor may conclude that the automated application control continues to be effective without repeating the prior year's specific tests of the operation of the automated application control. The nature and extent of the evidence that the auditor should obtain to verify that the control has not changed may vary depending on the circumstances, including depending on the strength of the company's program change controls.	Issuer B

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 B, C, D, E, and F
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 B, C, D, E, and F

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 B, C, D, E, and F

AS 2315, *Audit Sampling*		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AS 2315.16	When planning a particular sample for a substantive test of details, the auditor should consider ▪ The relationship of the sample to the relevant audit objective. ▪ Tolerable misstatement. (*See* paragraphs .18-.18A.) ▪ The auditor's allowable risk of incorrect acceptance. ▪ Characteristics of the population, that is, the items comprising the account balance or class of transactions of interest.	Issuers C, D, E, and F
AS 2315.18	Evaluation in monetary terms of the results of a sample for a substantive test of details contributes directly to the auditor's purpose, since such an evaluation can be related to his or her judgment of the monetary amount of misstatements that would be material. When planning a sample for a substantive test of details, the auditor should consider how much monetary misstatement in the related account balance or class of transactions may exist, in combination with other misstatements, without causing the financial statements to be materially misstated. This maximum monetary misstatement for the account balance or class of transactions is called *tolerable misstatement*.	Issuers C, D, E, and F
AS 2315.18A	Paragraphs .08-.09 of AS 2105, *Consideration of*	Issuers C, D, E,

AS 2315, *Audit Sampling*		
	Materiality in Planning and Performing an Audit, describe the auditor's responsibilities for determining tolerable misstatement at the account or disclosure level. When the population to be sampled constitutes a portion of an account balance or transaction class, the auditor should determine tolerable misstatement for the population to be sampled for purposes of designing the sampling plan. Tolerable misstatement for the population to be sampled ordinarily should be less than tolerable misstatement for the account balance or transaction class to allow for the possibility that misstatement in the portion of the account or transaction class not subject to audit sampling, individually or in combination with other misstatements, would cause the financial statements to be materially misstated.	and F
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 B, C, D, E, and F
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, *Audit Sampling*		
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 B, C, D, E, and F
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 B, C, D, E, and F
SAMPLING IN TESTS OF CONTROLS		
Planning Samples		
AS 2315.38	To determine the number of items to be selected for a particular sample for a test of controls, the auditor should consider the tolerable rate of deviation from the controls being tested, the likely rate of deviations, and the allowable risk of assessing control risk too low. 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 C, D, E, and F

AS 2501, *Auditing Accounting Estimates*		
EVALUATING ACCOUNTING ESTIMATES		
Evaluating Reasonableness		
AS 2501.10	In evaluating reasonableness, the auditor should obtain an understanding of how management developed the estimate. Based on that understanding, the auditor should use one or a combination of the following approaches: a. Review and test the process used by management to develop the estimate. b. Develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate. c. Review subsequent events or transactions occurring prior to the date of the auditor's report. Note: When performing an integrated audit of financial statements and internal control over financial reporting, the auditor may use any of the three approaches. However, the work that the auditor performs as part of the audit of internal control over financial reporting should necessarily inform the auditor's decisions about the approach he or she takes to auditing an estimate because, as part of the audit of internal control over financial reporting, the auditor would be required to obtain an understanding of the process management used to develop the estimate and to test controls over all relevant assertions related to the estimate.	Issuer J
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 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	Issuers C, D, E, and F

AS 2501, *Auditing Accounting Estimates*		
	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	Issuer G

AS 2502, *Auditing Fair Value Measurements and Disclosures*		
	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.	
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.	Issuer G

AS 2605, *Consideration of the Internal Audit Function*		
EVALUATING AND TESTING THE EFFECTIVENESS OF INTERNAL AUDITORS' WORK		
AS 2605.24	The auditor should perform procedures to evaluate the quality and effectiveness of the internal auditors' work, as described in paragraphs .12 through .17, that significantly affects the nature, timing, and extent of the auditor's procedures. The nature and extent of the procedures the auditor should perform when making this evaluation are a matter of judgment depending on the extent of the effect of the internal auditors' work on the auditor's procedures for significant account balances or classes of transactions.	Issuer E
AS 2605.26	In making the evaluation, the auditor should test some of the internal auditors' work related to the significant financial statement assertions. These tests may be accomplished by either (*a*) examining some of the controls, transactions, or balances that the internal auditors examined or (*b*) examining similar controls, transactions, or balances not actually examined by the internal auditors. In reaching conclusions about the internal auditors' work, the auditor should compare the results of his or her tests with the results of the internal auditors' work. The extent of this testing will depend on the circumstances and should be sufficient to enable the	Issuer E

AS 2605, *Consideration of the Internal Audit Function*		
	auditor to make an evaluation of the overall quality and effectiveness of the internal audit work being considered by the auditor.	

AS 2810, *Evaluating Audit Results*		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
AS 2810.03	In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	Issuer J