

**Report on**  
  
**2018 Inspection of**  
**PLS CPA A Professional Corporation**  
**(Headquartered in San Diego, California)**

**Issued by the**  
  
**Public Company Accounting Oversight Board**

**July 25, 2019**

**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**

## **2018 INSPECTION OF PLS CPA A PROFESSIONAL CORPORATION**

### Preface

In 2018, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm PLS CPA A Professional Corporation ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

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

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

**PROFILE OF THE FIRM<sup>1</sup>**

Offices	1 (San Diego, California)
Ownership structure	Professional corporation
Partners / professional staff <sup>2</sup>	3 / 5
Issuer audit clients	18
Lead partners on issuer audit work <sup>3</sup>	2
Other names used in audit reports	PLS CPA, A PC

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

<sup>2</sup> The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers. The number of partners cited above represents the number of individuals with an ownership interest in the Firm.

<sup>3</sup> The number of lead partners on issuer audit work represents the total number of Firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

## **PART I**

### **INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from October 29, 2018 to November 1, 2018.<sup>4</sup>

#### **A. Review of Audit Engagements**

The inspection procedures included reviews of portions of two issuer audits performed by the Firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only the 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 any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in conformity with the applicable financial reporting framework. In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

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

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are materially misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

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.<sup>5</sup>

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

**A.1. Issuer A**

- (1) the failure to perform sufficient procedures to test the occurrence and valuation of revenue (AS 1105.04; 2301.08 and .13); and
- (2) the failure to perform sufficient procedures to test the valuation of inventory, including the need for a reserve for excess or obsolete inventory (AS 2301.11; AS 2501.04).

**B. Auditing Standards**

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The

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<sup>5</sup> 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.

deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. 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) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

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

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

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

PCAOB Auditing Standards	Issuer
AS 1105, <i>Audit Evidence</i>	A
AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	A
AS 2501, <i>Auditing Accounting Estimates</i>	A

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

A Board inspection includes a review of certain portions of selected audit work performed by the inspected firm and a review of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

**C.1. Reviews of Audit Work**

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

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,<sup>6</sup> as well as a

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<sup>6</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any

firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS 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 reaching its conclusions, an inspection team considers whether audit documentation or other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

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

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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.

<sup>7</sup> 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.

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.

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

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

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect or potential defect in a firm's quality control system.<sup>8</sup> 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;<sup>9</sup> related firm methodology, guidance, and practices; and possible root causes.

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

<sup>9</sup> 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

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

END OF PART I

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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.

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

## PART II

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### B. Issues Related to Quality Controls

A firm's system of quality control should provide reasonable assurance of compliance with applicable professional standards and regulatory requirements with respect to its audit practice. (QC 20.04 and .17) On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects<sup>10</sup> –

#### B.1. Practice Monitoring

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will effectively monitor its accounting and auditing practice as required by QC 20 and QC 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*. Specifically, the Firm's policies and procedures for monitoring its accounting and auditing practice do not address engagement performance monitoring procedures and the Firm has not performed an internal inspection since 2016.

#### B.2. Testing Appropriate to the Audit

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all audit procedures necessary for the particular audit, specifically with respect to the following issues–

##### B.2.a. Occurrence and Valuation of Revenue

As discussed above, in one of the audits reviewed, the inspection team identified a deficiency that is included in Part I.A of this report related to the Firm's testing of the occurrence and valuation of revenue. Based on review of the work papers and

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

discussions with the engagement personnel, it appeared to the inspection team that the deficiency was attributable, at least in part, to the engagement personnel lacking an appropriate understanding of relevant PCAOB standards. This information provides cause for concern regarding the Firm's quality control policies and procedures with respect to auditing revenue. [Issuer A]

B.2.b. Valuation of Inventory

As discussed above, in one of the audits reviewed, the inspection team identified a deficiency that is included in Part I.A of this report related to the Firm's testing of the valuation of inventory. Based on review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiency was attributable, at least in part, to the engagement personnel lacking an appropriate understanding of relevant PCAOB standards. This information provides cause for concern regarding the Firm's quality control policies and procedures with respect to auditing inventory. [Issuer A]

B.3. Risk Assessment

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will perform risk assessment procedures in accordance with the provisions of AS 2110, *Identifying and Assessing Risks of Material Misstatement*. Specifically, in the two audits reviewed, the Firm failed to (1) obtain a sufficient understanding of each component of the issuer's internal control over financial reporting to (a) identify the types of potential misstatements and (b) assess the factors that affect the risks of material misstatement; (2) perform a risk assessment for any accounts that were not identified as containing a fraud or other significant risk, which included accounts with balances that were various multiples of the Firm's established planning materiality; (3) identify and assess the risk of material misstatement at the assertion level; and (4) consider the risk of fraud associated with management override of controls. Based on a review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiencies were attributable, at least in part, to the engagement personnel lacking an appropriate understanding of PCAOB standards related to risk assessment. This information provides cause for concern regarding the Firm's proficiency with respect to performing risk assessment procedures. [Issuers A and B]

B.4. Engagement Completion Document

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will prepare an engagement completion document in accordance with AS

1215, which is necessary to demonstrate that the work performed by engagement personnel addresses the significant findings and issues of the engagement. In the two audits reviewed, the inspection team identified that the Firm failed to prepare an engagement completion document that included the engagement team's significant findings or issues, actions taken to address them (including additional evidence obtained), and the basis for the conclusions reached. Based on review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiency was attributable, at least in part, to the engagement personnel having approached this aspect of the audit without due professional care. This information provides cause for concern regarding the Firm's application of due professional care with respect to preparing the engagement completion document. [Issuers A and B]

#### B.5. Confirmations

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform sufficient procedures in accordance with AS 2310, *The Confirmation Process*. Specifically, in one audit reviewed, the inspection team noted that the Firm failed to determine that there was direct communication between the intended recipient of the confirmation and the firm in order to minimize the possibility that the confirmation results would be biased due to interception of, or alteration of, the request or response, as the Firm sent and received confirmation requests via email and did not verify the source and contents of email responses. The Firm should consider taking certain precautions, such as verifying the source and contents of an email response in a telephone call to the purported sender or request the purported sender to mail the confirmation directly to the Firm. Based on a review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiencies were attributable, at least in part, to the engagement personnel lacking an appropriate understanding of PCAOB standards related to the confirmation process. This information provides cause for concern regarding the Firm's proficiency with respect to performing procedures related to confirmations. [Issuer B]

#### B.6. Communications with Audit Committees Related to the Conduct of the Audit

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with AS 1301, *Communications with Audit Committees*. Specifically, in the two audits reviewed, the Firm failed to communicate all of the significant risks identified during its risk assessment procedures to the audit committee, or equivalent. [Issuers A and B] In addition, in one of the audits

reviewed, the Firm failed to communicate certain matters to the entire audit committee, or equivalent, including (1) the auditor's evaluation of the issuer's ability to continue as a going concern, (2) corrected misstatements identified during the audit, and (3) other material written communications between the Firm and management of the issuer. [Issuer B] Based on review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that these deficiencies were attributable, at least in part, to the engagement personnel having approached this aspect of the audit without due professional care. This information provides cause for concern regarding the Firm's application of due professional care with respect to making the required communications with audit committees, or equivalents.

#### B.7. Engagement Quality Review

In light of the audit performance deficiencies described in Part II.A (and summarized in Part I.A), questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with AS 1220, *Engagement Quality Review*. An engagement quality review performed with due professional care in compliance with AS 1220 should have detected, and resulted in the Firm addressing, each of the deficiencies described in Part II.A which was in an area in which the engagement team had identified a significant risk. [Issuer A]

#### B.8. Reporting of Audit Participants

The Firm's system of quality control appears not to provide reasonable assurance that the Firm will comply with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*. Rule 3211(a) requires that with respect to each audit report that a registered public accounting firm issues for an issuer and that is included in a document filed with the Commission, the firm that issued the audit report must file a PCAOB Form AP to report certain information by the relevant deadline prescribed in Rule 3211(b), unless an exception applies. At the time of the primary procedures, the deadline for filing Form AP had passed with respect to three issuer audit reports, and the Firm had not filed Form AP as to any of those audit reports. [Issuers B, C, and D] In addition, with respect to five issuer audit reports issued by the Firm, the Firm was required to file Form APs, but failed to file Form APs by the relevant deadlines. [Issuers E, F, G, H, and I]

## B.9. PCAOB Standards and Rules

The table below lists the specific PCAOB standards and rules that are primarily related to the descriptions of defects in, or criticisms of, the Firm's system of quality control included in this Part of the report.<sup>11</sup>

PCAOB Standards / Rules	Part II Sections
AS 1010, <i>Training and Proficiency of the Independent Auditor</i>	B.2., B.3, and B.5
AS 1015, <i>Due Professional Care in the Performance of Work</i>	B.4, B.6, and B.7
AS 1215, <i>Audit Documentation</i>	B.4
AS 1220, <i>Engagement Quality Review</i>	B.7
AS 1301, <i>Communications with Audit Committees</i>	B.6
AS 2110, <i>Identifying and Assessing Risks of Material Misstatement</i>	B.3
AS 2310, <i>The Confirmation Process</i>	B.5
QC 20, <i>System of Quality Control for a CPA Firm's Accounting and Auditing Practice</i>	B
QC 30, <i>Monitoring a CPA Firm's Accounting and Auditing Practice</i>	B.1
Rule 3211, <i>Auditor Reporting of Certain Audit Participants</i>	B.8

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<sup>11</sup> This table does not necessarily include reference to every standard or rule that may have been related to the criticisms or potential defects that are included in Part II.

**PART IV**

**RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT**

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm did not provide a written response.

## APPENDIX A

### AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.<sup>12</sup>

<b>AS 1105, <i>Audit Evidence</i></b>		
<b>SUFFICIENT APPROPRIATE AUDIT EVIDENCE</b>		
AS 1105.04	The auditor must plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.	Issuer A

<b>AS 2301, <i>The Auditor's Responses to the Risks of Material Misstatement</i></b>		
<b>RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES</b>		
AS 2301.08	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuer A
<b>Responses to Significant Risks</b>		
AS 2301.11	<p>For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.</p> <p>Note: AS 2110 discusses identification of significant risks<sup>10</sup> and states that fraud risks are significant risks.</p>	Issuer A

<sup>12</sup> The text presented in this appendix represents the standards as in effect during the applicable audit period.

**AS 2301, The Auditor's Responses to the Risks of Material Misstatement**

Footnote to AS 2301.11

<sup>10</sup> See AS 2110.71 for factors that the auditor should evaluate in determining which risks are significant risks.

**Responses to Fraud Risks**

AS 2301.13	<i>Addressing Fraud Risks in the Audit of Financial Statements.</i> In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs .16-.17 of this standard, the auditor should perform tests of those controls.	Issuer A
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**AS 2501, Auditing Accounting Estimates**

AS 2501.04	The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.	Issuer A
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