Report on

2015 Inspection of Ernst & Young Auditores Independentes S.S.
(Headquartered in Sao Paulo, Federative Republic of Brazil)

Issued by the

Public Company Accounting Oversight Board

June 16, 2016

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

PCAOB RELEASE NO. 104-2016-127
2015 INSPECTION OF ERNST & YOUNG 
AUDITORES INDEPENDENTES S.S.

Preface

In 2015, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Ernst & Young Auditores Independentes S.S. ("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 issuer audit work. 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 two issuer audits performed by the Firm and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. 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 audit work. 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

| Offices | 14 (Belo Horizonte, Blumenau, Brasilia, Campinas, Curitiba, Fortaleza, Goiania, Porto Alegre, Recife, Rio de Janeiro(2), Salvador, Sao Paulo(2), Federative Republic of Brazil) |
| Ownership structure | Professional company |
| Partners / professional staff | 91 / 1,012 |
| Issuer audit clients | 4 |
| Other issuer audits in which the Firm plays a role | 79 |

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

2. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers.

3. The number of other issuer audits encompasses audit work performed by the Firm in engagements for which the Firm was not the principal auditor, including audits, if any, in which the Firm plays a substantial role as defined in PCAOB Rule 1001(p)(ii).
Lead partners on issuer audit work 4 43

Other names used in audit reports  Ernst & Young Terco Auditores Independentes S.S. 5

4 The number of lead partners on issuer audit work represents the total number of Firm personnel who had primary responsibility for an issuer audit (as defined in AS No. 10, *Supervision of the Audit Engagement*) or for the Firm’s role in an issuer audit during the twelve-month period preceding the outset of the inspection.

5 The Firm filed a special report on PCAOB Form 3 describing a change in its legal name from Ernst & Young Terco Auditores Independentes S.S. to Ernst & Young Auditores Independentes S.S., effective November 4, 2013.
PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures for the inspection from May 4, 2015 to May 15, 2015.6

A. Review of Audit Engagements

The inspection procedures included reviews of portions of two issuer audits performed by the Firm and the Firm’s audit work on one other issuer audit engagement in which it played a role but was not the principal auditor. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

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

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements

6 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.
were presented fairly, in all material respects, in accordance 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"). 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 materially 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.\(^7\)

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

\(^7\) 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.
Issuer A

(1) the failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the valuation of goodwill (AS No. 5, paragraphs 39, 42 and 44);

(2) the failure to perform sufficient procedures to test the valuation of goodwill (AS No. 13, paragraph 5; AU 328, paragraphs .26 and .28);

(3) the failure, in an audit of ICFR, to perform sufficient procedures to test the design and operating effectiveness of controls over the presentation and disclosure of revenue (AS No. 5, paragraph 39);

(4) the failure to perform sufficient procedures to test the presentation and disclosure of revenue (AS No. 13, paragraphs 8 and 36); and

(5) the failure to perform sufficient procedures to test the existence of trade accounts receivable, including the failure to perform sufficient procedures to extend the audit conclusion from the interim date for its substantive procedures to year end (AS No. 13, paragraph 45; AU 330, paragraph .33).

Issuer B

the failure to perform sufficient procedures to test the occurrence and allocation of revenue (AS No. 15, paragraphs 4 and 10).

B. Auditing Standards

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

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

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

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<thead>
<tr>
<th>PCAOB Auditing Standards</th>
<th>Issuers</th>
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<tr>
<td>AS No. 5, <em>An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements</em></td>
<td>A</td>
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<tr>
<td>AS No. 13, <em>The Auditor's Responses to the Risks of Material Misstatement</em></td>
<td>A</td>
</tr>
<tr>
<td>AS No. 15, <em>Audit Evidence</em></td>
<td>B</td>
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</table>
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 audit work. 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 ICFR and the firm's audit work on other issuer audit engagements in which it played a role but was not the principal auditor. 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, as well as a firm’s failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm’s audit work, 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 No. 3, Audit Documentation, provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, an inspection team considers whether audit documentation or 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 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.

When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.
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.\textsuperscript{9}

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 audit engagements and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audit engagements, 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, \textit{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 audit engagements. 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 audit work. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient

\textsuperscript{9} The discussion in this report of any deficiency observed in a particular audit engagement 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.
appropriate audit evidence to fulfill the objectives of its role in an audit may indicate a
defect or potential defect in a firm’s quality control system. 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 audit
engagements 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, 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. This review addresses practices, policies, and procedures concerning audit
performance and the following eight functional areas (1) tone at the top; (2) practices for
partner evaluation, compensation, admission, assignment of responsibilities, and
disciplinary actions; (3) independence implications of non-audit services; business
ventures, alliances, and arrangements; personal financial interests; and commissions
and contingent fees; (4) practices for client acceptance and retention; (5) practices for
consultations on accounting, auditing, and SEC matters; (6) the Firm’s internal
inspection program; (7) practices for establishment and communication of audit policies,
procedures, and methodologies, including training; and (8) the supervision by the Firm’s
audit engagement teams of the work performed by foreign affiliates.

END OF PART I

10 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.

11 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.
PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT
PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.\(^\text{12}\)

\(^{12}\) 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.
April 13, 2016

Ms. Helen A. Munter  
Director, Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, DC 20006-2803

Response to Part I of the Draft Report on the 2015 Inspection of Ernst & Young Auditores Independentes S.S.

Dear Ms. Munter,

We are pleased to provide our initial response to Part I of the draft Inspection report (the Report) from the Public Company Accounting Oversight Board (the Board or PCAOB) pertaining to the 2015 inspection of Ernst & Young Auditores Independentes S.S.

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of the highest quality for the continued benefit of the capital markets in which the public participates and on which they rely. The PCAOB's inspection process assists us in achieving that objective.

We respect the PCAOB's inspection process and understand that judgments are involved in performing audits, as well as in subsequent inspections of those audits. We have thoroughly evaluated all matters described in Part I, Inspection Procedures and Certain Observations of the Report, and have taken actions, where appropriate, in accordance with PCAOB standards and our policies. These actions did not change our original audit conclusions, nor did the actions affect our reports on the issuers' financial statements.
We will continue to work with the Director of the Division of Registration and Inspections and her staff over the twelve-month period following the issuance of the final inspection report. We are committed to working with the PCAOB to continue to strengthen our audit quality control system.

We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our U.S. SEC issuer auditing practice.

Respectfully submitted,

[Signature]

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

**AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements**

<table>
<thead>
<tr>
<th>USING A TOP-DOWN APPROACH</th>
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<tr>
<td>Selecting Controls to Test</td>
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<tr>
<td>AS No. 5.39</td>
<td>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. Issuer A</td>
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<tr>
<th>TESTING CONTROLS</th>
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<tr>
<td>Testing Design Effectiveness</td>
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<tr>
<td>AS No. 5.42</td>
<td>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. Issuer A</td>
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Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.
### Testing Operating Effectiveness

**AS No. 5.44**

The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively.

Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.

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### AS No. 13, The Auditor's Responses to the Risks of Material Misstatement

**Overall Responses**

**AS No. 13.5**

The auditor should design and implement overall responses to address the assessed risks of material misstatement as follows:

a. Making appropriate assignments of significant engagement responsibilities. The knowledge, skill, and ability of engagement team members with significant engagement responsibilities should be commensurate with the assessed risks of material misstatement.¹

b. Providing the extent of supervision that is appropriate for the circumstances, including, in particular, the assessed risks of material misstatement. (See paragraphs 5—6 of Auditing Standard No. 10, Supervision of the Audit Engagement.)

c. Incorporating elements of unpredictability in the selection of audit procedures to be performed. As part of the auditor's response to the assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud ("fraud risks"), the auditor should incorporate an element of unpredictability in the selection of auditing procedures to be performed from year to year. Examples of ways to incorporate an element of unpredictability include:

   (1) Performing audit procedures related to accounts, disclosures, and assertions that
### AS No. 13, The Auditor’s Responses to the Risks of Material Misstatement

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<td>would not otherwise be tested based on their amount or the auditor's assessment of risk;</td>
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<td>(2) Varying the timing of the audit procedures;</td>
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<td>(3) Selecting items for testing that have lower amounts or are otherwise outside customary selection parameters;</td>
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<td>(4) Performing audit procedures on an unannounced basis; and</td>
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<td></td>
<td>(5) In multi-location audits, varying the location or the nature, timing, and extent of audit procedures at related locations or business units from year to year.</td>
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<td>d. Evaluating the company's selection and application of significant accounting principles. The auditor should evaluate whether the company's selection and application of significant accounting principles, particularly those related to subjective measurements and complex transactions, are indicative of bias that could lead to material misstatement of the financial statements.</td>
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### Footnotes to AS No. 13.5

1/ See also paragraph .06 of AU sec. 230, Due Professional Care in the Performance of Work.

2/ For integrated audits, paragraphs 61 and B13 of Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements, establish requirements for introducing unpredictability in testing of controls from year to year and in multi-location audits.

3/ Paragraphs 12–13 of Auditing Standard No. 12 discuss the auditor's responsibilities regarding obtaining an understanding of the company's selection and application of accounting principles. See also paragraphs .66–67A of AU sec. 316, Consideration of Fraud in a Financial Statement Audit, and paragraphs .04 and .06 of AU sec. 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.
<table>
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<th>Responses Involving the Nature, Timing, and Extent of Audit Procedures</th>
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<tr>
<td><strong>AS No. 13.8</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Substantive Procedures</strong></td>
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<tr>
<td><strong>AS No. 13.36</strong></td>
<td>The auditor should perform substantive procedures for each relevant assertion of each significant account and disclosure, regardless of the assessed level of control risk. Issuer A</td>
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<td><strong>TIMING OF SUBSTANTIVE PROCEDURES</strong></td>
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<tr>
<td><strong>AS No. 13.45</strong></td>
<td>When substantive procedures are performed at an interim date, the auditor should cover the remaining period by performing substantive procedures, or substantive procedures combined with tests of controls, that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. Such procedures should include (a) comparing relevant information about the account balance at the interim date with comparable information at the end of the period to identify amounts that appear unusual and investigating such amounts and (b) performing audit procedures to test the remaining period. Issuer A</td>
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**AS No. 15, Audit Evidence**

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<th>Sufficient Appropriate Audit Evidence</th>
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<tr>
<td><strong>AS No. 15.4</strong></td>
<td>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 B</td>
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<tr>
<td><strong>USING INFORMATION PRODUCED BY THE COMPANY</strong></td>
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| **AS No. 15.10** | 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:  
- Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and |
|  |  | Issuer B |
• Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.

Footnote to AS No. 15.10

3/ When using the work of a specialist engaged or employed by management, see AU sec. 336, Using the Work of a Specialist. When using information produced by a service organization or a service auditor's report as audit evidence, see AU sec. 324, Service Organizations, and for integrated audits, see Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.

AU 328, Auditing Fair Value Measurements and Disclosures

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<tr>
<td>AU 328.26</td>
<td>The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether:</td>
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<tr>
<td></td>
<td>a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06).</td>
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<td></td>
<td>b. The fair value measurement was determined using an appropriate model, if applicable.</td>
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<td></td>
<td>c. Management used relevant information that was reasonably available at the time.</td>
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<tr>
<td>AU 328.28</td>
<td>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.</td>
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</table>

Issuer A
### AU 330, The Confirmation Process

<table>
<thead>
<tr>
<th>RELATIONSHIP OF CONFIRMATION PROCEDURES TO THE AUDITOR’S ASSESSMENT OF AUDIT RISK</th>
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<tbody>
<tr>
<td>Evaluating the Results of Confirmation Procedures</td>
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</table>

**AU 330.33** After performing any alternative procedures, the auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient evidence has been obtained about all the applicable financial statement assertions. In performing that evaluation, the auditor should consider (a) the reliability of the confirmations and alternative procedures; (b) the nature of any exceptions, including the implications, both quantitative and qualitative, of those exceptions; (c) the evidence provided by other procedures; and (d) whether additional evidence is needed. If the combined evidence provided by the confirmations, alternative procedures, and other procedures is not sufficient, the auditor should request additional confirmations or extend other tests, such as tests of details or analytical procedures.