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Report on

2013 Inspection of BDO USA, LLP

(Headquartered in Chicago, Illinois)

Issued by the

Public Company Accounting Oversight Board

October 21, 2014

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

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PCAOB
Public Company Accounting Oversight Board

2013 INSPECTION OF BDO USA, LLP

Preface

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm BDO USA, 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.C of this report (which also contains additional information concerning the PCAOB inspections generally). Overall, the inspection process included reviews of portions of selected issuer audits completed by the Firm. These reviews were intended to identify whether deficiencies existed in those portions of the inspected audits, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included reviews 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 B, and Appendix C. Appendix B includes 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.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures[1/] for the inspection from August 2013 through November 2013. The inspection team performed field work at the Firm's National Office and at 15 of its approximately 35 U.S. practice offices.

A. Review of Audit Engagements

The 2013 inspection of the Firm included reviews of portions of 23 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 C to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in the references to the 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.

[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 inspection planning, which may commence months before the primary procedures, and inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

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 accordance with 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 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.[2/]

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

A.1. Issuer A

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR —

[2/] 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 the inspections staff may include in its procedures monitoring or assessing a firm's compliance.

- The Firm identified a number of control deficiencies, some of which it documented were at least significant deficiencies. The Firm failed to sufficiently evaluate the severity of these control deficiencies to determine whether the deficiencies, individually or in combination, were material weaknesses. Specifically —

    - The Firm failed to perform any evaluation of the severity of certain deficiencies that it had identified. In addition, the Firm failed to sufficiently evaluate in combination the deficiencies that it had identified, as several of the identified deficiencies were omitted from that evaluation. Further, the Firm identified, in the prior year, certain control deficiencies relating to the competencies of the control owners who performed certain important controls, but the Firm failed to evaluate whether those control deficiencies had been remediated in the current year under audit. (AS No. 5, paragraphs 9 and 62)

    - One of the significant deficiencies that the Firm identified resulted from the aggregation of various deficiencies in access controls for the issuer's general ledger system and another system that the issuer used to process and record revenue. The Firm identified two controls that it believed mitigated these deficiencies; however, the Firm determined that one of these controls was not operating effectively and did not test the other control. (AS No. 5, paragraph 68)

    - The Firm failed to evaluate whether various misstatements and exceptions that it identified in its testing resulted from control deficiencies. (AS No. 5, paragraphs 48 and B8)

- The Firm failed to perform sufficient procedures to test the control over revenue that it selected; this control used data from the two systems, noted above, with respect to which the Firm had identified deficiencies in access controls. The Firm failed to evaluate the effect of the deficiencies on the effectiveness of this control and failed to test any other controls over the accuracy and completeness of the data used in the operation of this control. (AS No. 5, paragraphs 39 and 65)

- The Firm's testing of the controls over goodwill, intangible assets, and convertible debt that it selected, as well as the revenue control discussed above, was insufficient in the following respects. The Firm's procedures were limited to observing evidence that certain activities (including meetings and reviews that constituted all or part of the controls) had occurred, inquiring of management, and for one control, performing a retrospective review of certain forecasts used in the operation of the control, which indicated significant inconsistencies between forecasted and actual results. The Firm, however, failed to evaluate whether these controls operated at a level of precision that would prevent or detect material misstatements, including by obtaining an understanding of, and evaluating, the procedures performed by the control owners. (AS No. 5, paragraphs 42 and 44)

A.2. Issuer B

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm failed to perform sufficient procedures to test controls over certain reserves and related receivables. The Firm selected for testing controls that consisted of reviews of self-insurance reserves, loss reserves, and related receivables. The Firm's procedures to test these controls were limited to inquiring of management, observing signatures as evidence that reviews had occurred, and comparing certain amounts to the general ledger or amounts estimated by an external actuary engaged by the issuer. In addition, the Firm stated that certain of its substantive tests were dual-purpose in nature and provided evidence of the effectiveness of these controls. The Firm failed to test, however, through any of its procedures, whether these controls operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42, 44, and B9)

- The Firm failed to perform sufficient substantive procedures to test the issuer's self-insurance reserves. The Firm's approach for testing these reserves was to review and test the issuer's process; the Firm, however, failed to obtain an understanding of certain of the methods and assumptions used to develop the estimates for the self-insurance reserves. The Firm also failed to evaluate whether the differences between the issuer's recorded reserves and the amounts calculated by the issuer's internal and external actuaries indicated a potential misstatement, other than by reviewing trends in the relationships between the amounts. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.3. Issuer C

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm failed to perform sufficient procedures to test controls over certain revenue and certain related financial assets. Specifically —

  - With respect to the issuer's method for calculating the revenue and the value of the related financial assets, the Firm selected a control consisting of an external consultant's review of the forecasting models that the issuer used in the calculation and valuation. The Firm failed to determine whether this control, or any other controls that it tested, addressed the appropriateness of the issuer's models, as the Firm's testing of this control was limited to obtaining a report from the issuer's consultant that indicated that the models used were mathematically accurate and produced consistent results. (AS No. 5, paragraph 39)

  - The Firm's testing of certain other controls over revenue, which consisted of management's review of forecasts, analyses, and related memoranda, was insufficient, as the Firm limited its testing to obtaining the documents that were reviewed during the operation of the controls and noting signatures or initials as evidence that reviews had occurred, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- During the year, the issuer acquired a business. The Firm failed to identify and test controls that sufficiently addressed the risks related to the issuer's accounting for business combinations, as the period-end financial reporting process controls that it selected did not operate at a level of precision that would prevent or detect material misstatements related to business combinations. (AS No. 5, paragraph 39)

- The Firm failed to perform sufficient substantive procedures to test the valuation of certain financial assets acquired in the business combination. Specifically, the Firm failed to sufficiently evaluate whether the fair value assigned to these assets was consistent with the value that would be received in a sale of these assets in an orderly transaction at the measurement date between market participants, as the Firm limited its testing of the issuer's discount rate, which was an important input to the valuation, to concluding that the rate was reasonable based on the issuer's own recent activity involving similar financial assets, without considering whether this activity involved transactions with market participants. (AU 328, paragraph .15)

A.4. Issuer D

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm's testing of the controls over the valuation of property and equipment and goodwill that it selected, consisting of quarterly certifications of financial reporting packages and monthly management reviews of operating results, was insufficient. Specifically, the Firm limited its testing to inquiring of management and observing sign-offs as evidence that the reviews and certifications had occurred, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements related to these areas. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of data and reports used in the performance of certain of these controls. (AS No. 5, paragraphs 39, 42, and 44)

- For one of the issuer's reportable segments, the Firm failed to perform sufficient substantive procedures to evaluate the potential impairment of property and equipment, which constituted a substantial majority of the issuer's total property and equipment. Specifically, the Firm's procedures were limited to observing that the issuer continued to operate and maintain its facilities, without evaluating potential impairment indicators, including declining revenue and a net loss for this segment; and, for the issuer, (1) a net loss, (2) negative cash flows from operations, and (3) a significant decline in the stock price so that the issuer's market capitalization was significantly lower than the issuer's total carrying value. (AS No. 13, paragraph 8; AS No. 14, paragraph 3)

- The Firm failed to perform sufficient procedures to test controls over revenue. Specifically —

  - The Firm's testing of certain controls over revenue and accounts receivable was insufficient, as the Firm limited its testing to observing sign-offs as evidence that reviews that constituted part or all of the controls had occurred, without evaluating whether these controls operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of data and reports used in (1) performing these controls or (2) determining the amount of revenue recognized at one of the issuer's subsidiaries. (AS No. 5, paragraphs 39, 42, and 44)

  - For one of the issuer's segments, the issuer recorded revenue using the proportional performance method. The Firm failed to identify and test any controls over the allocation percentages used to determine the amount of this revenue. (AS No. 5, paragraph 39)

  - The Firm's audit approach involved testing information technology general controls ("ITGCs") over certain applications to support the Firm's conclusions regarding revenue controls that depended on these applications. The Firm failed to evaluate the effects of risks associated with certain users' administrative or developer access to these applications on its conclusions regarding the effectiveness of controls. In addition, the Firm failed to appropriately test change-management controls for these applications, as the Firm failed to determine whether the population from which it selected its sample for testing was complete. In addition, for one significant location, the Firm relied on a system used to record revenue for which it failed to identify and test ITGCs. (AS No. 5, paragraphs 39, 47, and 48; AS No. 15, paragraph 10; AU 350, paragraph .39)

- The Firm designed certain of its substantive procedures – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, certain of the samples that the Firm used to test revenue, unearned revenue, accounts receivable, and unbilled receivables were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

- The Firm failed to evaluate whether misstatements that it noted during the performance of substantive procedures, related to the calculation of an asset retirement obligation, were the result of deficiencies in internal control. (AS No. 5, paragraph B8)

- The Firm failed to perform sufficient substantive procedures to test the asset retirement obligation discussed above. Specifically, the Firm failed to sufficiently evaluate the appropriateness of the issuer's use of a risk-free rate to estimate the obligation, as it failed to quantify the effect of the factor that it identified as supporting the use of a risk-free rate. (AU 342, paragraph .11)

A.5. Issuer E

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm's testing of controls over the income tax-related accounts, including controls over the evaluation of uncertain tax positions and the permanent reinvestment of foreign-sourced income, was insufficient. The Firm stated that, with respect to all of the controls that it selected, its substantive tests were dual-purpose in nature and provided evidence of the effectiveness of the controls. In addition, for one control, the Firm performed a walkthrough and observed evidence that a review had occurred. For all of these controls, however, the Firm failed to test, through any of its procedures, whether the controls operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42, 44, and B9)

- The Firm failed to perform sufficient procedures to test controls over revenue and accounts receivable. Specifically —

    - The Firm failed to identify and test controls that sufficiently addressed the risk of recording an incorrect amount of revenue; the controls that the Firm identified and tested did not provide assurance regarding the accuracy of the net sales prices reflected in the issuer's invoices. (AS No. 5, paragraph 39)

    - The Firm's testing of the control over the allowance for doubtful accounts that it selected was insufficient, as the Firm limited its testing to inquiring of management and observing evidence that a review of the allowance and any subsequent cash receipts had occurred, without evaluating whether this control operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to perform sufficient substantive procedures to test revenue and accounts receivable, as the Firm failed to evaluate whether the significant amount of adjustments that were recorded as bad debt write-offs could be an indicator that the revenue recognition criteria had not been met for some of the revenue that the issuer had recognized. (AS No. 14, paragraph 3)

A.6. Issuer F

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements —

- The Firm failed to perform sufficient procedures to test revenue from contracts accounted for using the percentage-of-completion method. Specifically, the Firm failed to sufficiently test costs incurred and allocated to individual contracts, as it limited its procedures to testing only one contract that represented less than one percent of total revenue. The Firm also failed to sufficiently test the estimated costs to complete, as the Firm's testing was limited to (1) for all fixed-priced contracts, comparing the estimated costs to complete to the corresponding estimates at prior and subsequent dates and (2) for certain contracts, comparing the estimated costs to those originally budgeted. The Firm's procedures to evaluate significant variations identified in that testing were limited to inquiring of the issuer's finance staff, internal audit personnel, and project managers, without obtaining corroboration of the responses to those inquiries. (AS No. 13, paragraphs 8 and 13; AU 342, paragraph .11)

- The Firm failed to perform sufficient procedures to test the issuer's annual analysis of the potential impairment of goodwill. Specifically —

  - The issuer prepared a discounted cash flow forecast that it used in estimating the fair value of one of its reporting units when performing the impairment analysis of goodwill assigned to that reporting unit. The Firm failed to sufficiently test significant assumptions used in this analysis. Specifically, the Firm's procedures were limited to (1) inquiring of management; (2) comparing the issuer's past forecasts with the results for those periods, which revealed certain significant variances between actual and forecasted amounts; (3) reading issuer-prepared backlog schedules, without obtaining corroboration of the information in the schedules; and (4) performing a sensitivity analysis. The sensitivity analysis was limited to evaluating the sensitivity of the weighted average cost of capital, projected revenue growth, and projected free cash flow in the first five years of the analysis, and failed to (1) consider changes to the projected revenue growth or projected free cash flow in the terminal period or (2) evaluate the sensitivity of the valuation to changes in certain other important assumptions, other than indirectly through their effects on the projected free cash flow. (AU 328, paragraphs .26, .28, and .31)

  - The issuer prepared an analysis to evaluate the estimated fair values of all of its reporting units based on expected future cash flows, as compared to the issuer's year-end total market capitalization, which was significantly lower than the combined estimated fair values. The Firm failed to sufficiently evaluate certain assumptions that the issuer used in preparing this analysis, as the Firm's procedures were limited to obtaining the analysis, reading a related memorandum, and discussing the methodology with the Firm's internal specialist. (AU 328, paragraphs .26, .28, and .31)

A.7. Issuer G

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm failed to sufficiently test controls over the valuation of assets acquired and liabilities assumed in business combinations. Specifically, the Firm selected a control over acquisitions, but its testing of this control did not address the control's operation with respect to the risks associated with business combinations, including the valuation of assets acquired and liabilities assumed, as the Firm selected for testing only one transaction that was not a business combination. In addition, the Firm referenced its substantive testing when addressing its evaluation of the effectiveness of the control as it related to these matters. The Firm failed, however, in any of its procedures, to directly test the control's operation related to the valuation of assets acquired and liabilities assumed in business combinations. (AS No. 5, paragraphs 42, 44, and B9)

- The Firm failed to sufficiently test a control over the issuer's loss reserves; the control consisted of the analysis of the reserves and the review of a memorandum reflecting that analysis. The Firm failed to test whether the control operated at a level of precision that would prevent or detect material misstatements, as it limited its testing to inquiring of issuer personnel; reading the memorandum, which did not provide specific information regarding the calculations and analysis performed; and noting that the memorandum was presented to the audit committee. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to perform sufficient substantive procedures to test the issuer's loss reserves. The Firm's approach for testing these reserves was to review and test the issuer's process; the Firm, however, failed to evaluate, beyond inquiry, the methods and assumptions used to develop the estimates of the loss reserves. The Firm also failed to evaluate whether the differences between the issuer's recorded reserves and the amounts calculated by the issuer's external specialist indicated a potential misstatement. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.8. Issuer H

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm's testing of certain controls that it selected over revenue, goodwill, expenditures billable to customers, advance billings, and contingent-consideration liabilities was insufficient. All of these controls included the preparation and/or review of an analysis, a memorandum, a reconciliation of an account, or a journal entry. The Firm's procedures to test the controls were limited to obtaining documentation prepared or reviewed as part of the operation of the controls, observing evidence that reviews had occurred, and, for some of these controls, inquiring of management. In addition, for some of these controls, the Firm stated that certain of its substantive tests were dual-purpose in nature and provided evidence of the effectiveness of these controls. The Firm failed to test, however, through any of its procedures, whether these controls operated at a level of precision that would prevent or detect material misstatements. Further, the Firm failed to identify and test any controls over the accuracy and completeness of data and reports that the issuer used in the performance of certain of these controls. (AS No. 5, paragraphs 39, 42, 44, and B9)

- The Firm failed to perform sufficient substantive procedures to test (1) the issuer's annual analysis of the potential impairment of goodwill and (2) the valuation of contingent-consideration liabilities. Specifically —

    - The Firm failed to evaluate whether the discount rate that the issuer used in both the goodwill impairment analysis and the estimation of the value of the contingent-consideration liabilities was consistent with the risks inherent in the cash flow projections and with related market information with respect to the issuer's individual reporting units. (AU 328, paragraphs .26 and .28)

- o The Firm's procedures to test the forecasted EBITDA margins and revenue growth rates that were used in the analysis of goodwill were limited to comparisons to prior-period results and the identification of significant variances; for those reporting units with significant variances, the Firm inquired of management and performed a sensitivity analysis that considered only changes in revenue growth rates. (AS No. 14, paragraph 3; AU 328, paragraphs .26 and .28)

- o The Firm's procedures to test the forecasted pre-tax income growth rates that were used in the valuation of the contingent-consideration liabilities were limited to inquiry of management and comparisons to rates used in prior acquisitions. (AU 328, paragraphs .26 and .28)

- o The Firm failed to sufficiently evaluate the potential impairment of goodwill for reporting units with negative carrying values, in that it did not assess whether adverse qualitative factors existed that indicated that the goodwill may be impaired. (AS No. 14, paragraph 30)

A.9. Issuer I

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm's testing of the controls that it selected over income taxes, inventory reserves, and the analysis of the potential impairment of goodwill was insufficient. All of these controls included an analysis of the account or the preparation of a journal entry and the subsequent review or approval of the analysis or journal entry. The Firm's procedures to test these controls were limited to one or more of the following: inquiring of management, obtaining the analysis or the journal entry and its support, and observing evidence that reviews or approvals had occurred. In addition, for some of these controls, the Firm stated that certain of its substantive tests were dual-purpose in nature and provided evidence of the effectiveness of these controls. The Firm failed to test, however, through any of its procedures, whether any of the controls operated at a level of precision that would prevent or detect material misstatements. Further, the Firm failed to identify and test any controls over the accuracy and completeness of data that the issuer used in the performance of the control over inventory reserves. (AS No. 5, paragraphs 39, 42, 44, and B9)

- The Firm failed to perform sufficient procedures to test controls over business combinations. Specifically, the Firm failed to determine whether the controls that it selected for testing addressed the accuracy and completeness of the data and reasonableness of the assumptions that the issuer used in the valuation of the assets acquired and liabilities assumed in business combinations. (AS No. 5, paragraph 39)

- The Firm failed to perform sufficient substantive procedures to test the issuer's analysis of the potential impairment of goodwill. Specifically, the Firm's procedures to test the issuer-prepared discounted cash flow forecasts used in the impairment analysis, which included forecasted growth that was higher than the growth that the issuer had experienced in recent years, were limited to inquiring of management and performing sensitivity analyses related to the terminal growth and discount rates. The Firm failed to evaluate the reasonableness of the issuer's assumptions of significant growth in revenue and operating profit in the years before those covered by the terminal growth rate, beyond inquiring of management and comparing the growth rates to those in publicly available forecasts. (AS No. 14, paragraph 3; AU 328, paragraphs .26 and .28)

A.10. Issuer J

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm identified deficiencies in access controls for the issuer's IT applications, including issues related to segregation of duties. The Firm identified certain manual and application controls that it considered to compensate for these deficiencies. The Firm's testing of these compensating controls was insufficient. Specifically —

- o Each of the manual compensating controls included the review or approval by management of reconciliations, monthly analyses, or other information. The owners of these controls, however, were also the individuals with the levels of access or segregation of duties conflicts based on which the Firm had identified control deficiencies, and the Firm failed to evaluate whether the deficiencies affected the effectiveness of the manual compensating controls. In addition, the Firm's procedures to test certain of these compensating controls were limited to observing sign-offs or obtaining emails as evidence that the reviews or approvals had occurred and comparing certain balances to the general ledger, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42, 44, and 68)

- o The Firm also identified two application controls as compensating for the deficiencies. One of these application controls involved restrictions on the deletions of journal entries; the Firm's testing, however, was limited to verifying that one individual could not delete journal entries, without evaluating whether other users had this ability. The Firm's testing of the other application control, which related to the segregation of incompatible duties, including those with respect to journal entries, did not address the segregation aspect of the control. (AS No. 5, paragraphs 42, 44, and 68)

- During the year, the issuer completed the acquisition of two significant businesses. The Firm's testing related to the accounting for these business combinations was deficient in the following respects —

  - o The Firm selected for testing certain controls that included reviews of valuation reports, the purchase accounting memorandum, and purchase accounting entries; however, it failed to sufficiently test these controls. Specifically, the Firm's procedures were limited to inquiring of management and obtaining emails as evidence that reviews had occurred, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of data that the issuer used in the performance of these controls. (AS No. 5, paragraphs 39, 42, and 44)

- o The Firm failed to sufficiently test certain data that the issuer used in determining the fair value of the acquired customer-relationship intangible assets. Specifically, for one of the business combinations, the Firm failed to test the data used to develop the customer attrition rate assumption. For the other, the Firm's testing of the data was limited to obtaining an analysis of attrition data for companies in the same industry, without considering whether the data related to companies that were comparable to the issuer. (AU 328, paragraphs .26, .28, and .39)

- o For one of these business combinations, the Firm also failed to test certain significant assets and liabilities recorded in connection with the transaction. (AS No. 13, paragraph 8; AU 328, paragraph .23)

A.11. Issuer K

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR —

- The Firm's testing of controls over (1) the valuation of assets acquired and liabilities assumed in business combinations and (2) the analysis of intangible assets, other than goodwill, for potential impairment was insufficient. The Firm selected for testing certain controls that consisted of the review of the accounting for non-routine transactions, the evaluation of indicators of impairment, and the completion and review of a checklist. The Firm's procedures to test these controls were limited to inquiring of management, obtaining a valuation report, and observing evidence that the review and/or certain actions performed as part of the controls had occurred, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of certain data used in the performance of these controls. (AS No. 5, paragraphs 39, 42, and 44)

- The Firm failed to perform sufficient procedures to test controls over revenue. Specifically —

    - The Firm failed to determine whether the controls that it selected for testing were designed and operated to identify and appropriately consider terms in customer contracts that would affect revenue recognition. (AS No. 5, paragraph 39)

    - The Firm's procedures to test a control consisting of the review of a comparison of actual to forecasted revenue were insufficient, as the Firm limited its testing to observing evidence that the review had occurred, without evaluating whether the control operated at a level of precision that would prevent or detect material misstatements. In addition, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had identified and tested any controls over the accuracy and completeness of certain data and system-generated reports that the issuer used in the performance of this control and other revenue controls that the Firm tested. (AS No. 5, paragraphs 39, 42, and 44)

A.12. <u>Issuer L</u>

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm failed to perform sufficient procedures related to inventory for two of the issuer's significant components. Specifically —

    - For both of these components, the Firm selected for testing a control over the issuer's cycle-count process. The Firm's procedures to test this control were insufficient, as the Firm limited its testing to reading the description of the process prepared by the issuer's internal auditors and observing evidence of reviewer sign-off on the monthly cycle-count summary. For one of the components, the Firm also referenced certain of its substantive testing when addressing its evaluation of the effectiveness of this control. The Firm failed to test, however, through any of its procedures, whether the control operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm failed to identify and test any controls over the accuracy and completeness of the reports used in the performance of this control. (AS No. 5, paragraphs 39, 42, 44, and B9)

- o The Firm failed to determine whether the control that it selected for testing addressed that (1) all relevant inventory items were counted, (2) the cycle counts occurred as frequently as planned, and (3) the counts met the issuer's accuracy threshold such that a full physical inventory was not required. (AS No. 5, paragraph 39)

- o Based on a level of reliance on controls that was excessive due to the deficiencies described above, the Firm reduced its substantive procedures for one component to conducting test counts for only one of the cycle counts and, for the other component, performing an analytical procedure that was intended to obtain only limited assurance. These procedures were not sufficient under the circumstances. (AS No. 13, paragraphs 16, 18, and 37; AU 331, paragraph .11)

- The Firm failed to perform sufficient procedures related to revenue for three of the issuer's significant components. Specifically —

  - o For two of the components, the Firm selected for testing a control over invoicing, but failed to test an important attribute of the control related to whether the issuer's invoices were in accordance with the sales orders. In addition, the Firm failed to determine whether this control, or any other control it tested, addressed the accuracy of the pricing in the sales orders from which the invoices were generated. Further, for one of these components, the Firm tested the control six months before year end, but failed to perform any procedures to update the results of its testing to the year end. (AS No. 5, paragraphs 39, 42, 44, and 56)

- For the third component, the Firm's procedures were insufficient, as follows —

    - The Firm selected an automated control over the generation of invoices. The Firm failed to determine whether this control, or any other control it tested, addressed (1) the accuracy of the pricing in the sales orders from which the invoices were generated and (2) whether the relevant revenue-recognition criteria had been met before invoices were recorded. (AS No. 5, paragraph 39)

    - The issuer recognized revenue from certain transactions based on the criteria in SEC Staff Accounting Bulletin No. 104, Topic 13.A.3(a), *Revenue Recognition – Bill and Hold Arrangements*. The Firm's testing of the control that it selected related to potential bill and hold transactions was insufficient, as the Firm limited its testing to observing evidence that a review had occurred, without evaluating whether the control operated at a level of precision that would prevent or detect material misstatements. In addition, the Firm tested the control five months before year end, but failed to perform any procedures to update the results of its testing to the year end. (AS No. 5, paragraphs 42, 44, and 56)

- For two of the three components, the Firm designed its substantive procedures – including sample sizes – based on a level of control reliance that was excessive due to the deficiencies in the Firm's testing of controls that are discussed above. As a result, the sample sizes the Firm used to test revenue at these components were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

- At the other component, the Firm failed to appropriately respond to a significant risk of material misstatement related to revenue that it identified, because it failed to perform a test of details of revenue transactions that was specifically responsive to the identified risk. (AS No. 13, paragraph 11)

A.13. Issuer M

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm selected for testing a control consisting of the review and approval of the valuation of intangible assets acquired in business combinations; however, its testing of this control was insufficient. Specifically, the Firm's procedures were limited to obtaining the documentation of the valuation and noting signatures and dates as evidence that the valuation had been approved, without evaluating whether the control operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to sufficiently evaluate the reasonableness of certain significant assumptions, and test the accuracy and completeness of certain underlying data, that the issuer used in determining the fair values of certain acquired intangible assets. Specifically, for these intangible assets that were acquired in certain business combinations, the Firm limited its procedures to (1) comparing the assumptions or underlying data to untested issuer-generated information disclosed in publicly available documents or used in presentations to the issuer's board of directors or (2) inquiring of management and noting that certain assumptions were in line with those used for prior acquisitions. For these intangible assets that were acquired in another business combination, the Firm performed no procedures. (AU 328, paragraphs .26, .28, and .39)

A.14. Issuer N

The Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR —

- The Firm failed to perform sufficient procedures to test controls over investments. Specifically —

- o The Firm's testing of the controls over the valuation of investments and net unrealized losses on investments that it selected was insufficient, as the Firm's procedures were limited to inquiring of management, observing evidence of reviewer sign-off, and comparing certain amounts to supporting documents, without evaluating whether the controls operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- o The Firm failed to identify and test any controls over certain inputs that the issuer used in the valuation of certain investments. (AS No. 5, paragraph 39)

- The Firm designed its tests of details of the inputs and methodologies used in the valuation of certain investments – including its sample size – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of controls that are described above. As a result, the sample size the Firm used was too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

A.15. Issuer O

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. Specifically, the Firm's procedures to test certain controls over income taxes, which consisted of the review and approval of income tax calculations, were limited to obtaining supporting documents and noting signatures or obtaining emails as evidence that the reviews had occurred. In addition, the Firm stated that certain of its substantive tests were dual-purpose in nature and asserted that these tests provided evidence of the effectiveness of these controls. The Firm failed to test, however, through any of its procedures, whether the controls operated at a level of precision that would prevent or detect material misstatements. Further, the Firm failed to identify and test any controls over the accuracy and completeness of the data that the issuer used in the performance of these controls. (AS No. 5, paragraphs 39, 42, 44, and B9)

B. Auditing Standards

Each of the deficiencies described in Part I.A of this report represents circumstances in which the Firm failed to comply with the requirement to obtain sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with applicable accounting principles, and/or for its opinion concerning whether the issuer maintained, in all material respects, effective ICFR. Each deficiency could relate to several applicable provisions of the standards that govern the conduct of audits, including both the paragraphs of the standards that are cited at the end of each description of the deficiency included in Part I.A of this report and one or more of the specific paragraphs discussed below.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), 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 Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), 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. AS No. 15, *Audit Evidence* ("AS No. 15"), 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 support of the related conclusions.

The table below lists the specific auditing standards that are referenced for each deficiency included in Part I.A of this report. See the descriptions of the deficiencies in Part I.A for identification of the specific paragraphs, in addition to those noted above, that relate to the individual deficiencies.

PCAOB Auditing Standards	Issuers
AS No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	A, B, C, D, E, G, H, I, J, K, L, M, N, and O
AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*	D, F, J, L, and N
AS No. 14, *Evaluating Audit Results*	B, D, E, G, H, and I
AS No. 15, *Audit Evidence*	D
AU Section 328, *Auditing Fair Value Measurements and Disclosures*	C, F, H, I, J, and M
AU Section 331, *Inventories*	L
AU Section 342, *Auditing Accounting Estimates*	B, D, F, and G
AU Section 350, *Audit Sampling*	D, L, and N

C. Information Concerning PCAOB Inspections 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 audits 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 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,[3/] as well as a firm's failures to perform, or to perform sufficiently, certain necessary audit procedures. The inspection does not involve the review of all of a 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 No. 3, *Audit Documentation* ("AS No. 3") 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, the inspection

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[3/] 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 applicable accounting principles, 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.

team considers whether audit documentation or any persuasive other evidence that a firm might provide to the inspection team supports a 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.[4/]

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.

Inclusion of an audit deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. When audit deficiencies are identified after the date of the audit report, PCAOB standards require a firm to take appropriate actions to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions. Depending upon the circumstances, compliance with these standards may

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[4/] 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.

require the firm to perform additional audit procedures, or to inform the issuer of the need for changes to its financial statements or reporting on ICFR, or to take steps to prevent reliance on previously expressed audit opinions.[5/]

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* ("QC 20") 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.[6/] 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

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5/ 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.

6/ 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.

nature, significance, and frequency of deficiencies;[7/] related firm methodology, guidance, and practices; and possible root causes.

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

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

Procedures in this area are designed to focus on (a) how management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance, and (b) whether actions and communications by the firm's leadership – the "tone at the top" – demonstrate a

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[7/] 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.

commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

C.2.b. <u>Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions</u>

Procedures in this area are designed to focus on (a) 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; (b) the firm's processes for allocating its partner resources; and (c) 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. In addition, the inspection team may review a sample of partners' personnel files.

C.2.c. <u>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</u>

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 (a) 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 (b) observe whether the audit procedures were responsive to the risks identified during the process.

C.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 foreign affiliated firms' internal inspections, interview members of the firm's leadership, and review the U.S. engagement teams' supervision and control procedures concerning the audit work that the firm's foreign affiliates performed on a sample of audits. In some cases, the inspection team may also review certain of the audit work performed by the firm's foreign affiliates on the foreign operations of the firm's U.S. issuer audits.

C.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

C.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 regarding how the firm identifies, evaluates, and responds 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.

C.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 related 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.

C.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.

Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PART II, PART III, AND APPENDIX A OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX B

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.[8/]

[8/] 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.

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October 10, 2014

Ms. Helen A. Munter
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 Draft Report on the 2013 Inspection of BDO USA, LLP

Dear Ms. Munter:

We appreciate this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2013 inspection of BDO USA, LLP. We support the PCAOB's inspection process and their goal of improving audit quality.

We have evaluated each of the matters described in Part I of the draft Report and have taken appropriate actions under both PCAOB standards and our policies, including steps we considered necessary to comply with AU 390, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.*

We remain committed to improving our audit performance and our underlying quality control systems. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Respectfully submitted,

BDO USA, LLP

APPENDIX C

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 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		
PLANNING THE AUDIT		
Using the Work of Others		
AS No. 5.9	The auditor should properly plan the audit of internal control over financial reporting and properly supervise the engagement team members. When planning an integrated audit, the auditor should evaluate whether the following matters are important to the company's financial statements and internal control over financial reporting and, if so, how they will affect the auditor's procedures - • Knowledge of the company's internal control over financial reporting obtained during other engagements performed by the auditor; • Matters affecting the industry in which the company operates, such as financial reporting practices, economic conditions, laws and regulations, and technological changes; • Matters relating to the company's business, including its organization, operating characteristics, and capital structure; • The extent of recent changes, if any, in the company, its operations, or its internal control over financial reporting; • The auditor's preliminary judgments about materiality, risk, and other factors relating to the determination of material weaknesses; • Control deficiencies previously communicated	Issuer A

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
	to the audit committee[8/] or management; • Legal or regulatory matters of which the company is aware; • The type and extent of available evidence related to the effectiveness of the company's internal control over financial reporting; • Preliminary judgments about the effectiveness of internal control over financial reporting; • Public information about the company relevant to the evaluation of the likelihood of material financial statement misstatements and the effectiveness of the company's internal control over financial reporting; • Knowledge about risks related to the company evaluated as part of the auditor's client acceptance and retention evaluation; and • The relative complexity of the company's operations. Note: Many smaller companies have less complex operations. Additionally, some larger, complex companies may have less complex units or processes. Factors that might indicate less complex operations include: fewer business lines; less complex business processes and financial reporting systems; more centralized accounting functions; extensive involvement by senior management in the day-to-day activities of the business; and fewer levels of management, each with a wide span of control.	
Footnote to AS No. 5.9 [8/] If no audit committee exists, all references to the audit committee in this standard apply to the entire board of directors of the company. See 15 U.S.C. §§ 78c(a)58 and 7201(a)(3).		
TESTING CONTROLS		
Selecting Controls to Test		
AS No. 5.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, C, D, E, H, I, J, K, L, N, and O
Testing Design Effectiveness		
AS No. 5.42	The auditor should test the design effectiveness of controls	Issuers A, B,

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
	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.	C, D, E, G, H, I, J, K, L, M, N, and O
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.	Issuers A, B, C, D, E, G, H, I, J, K, L, M, N, and O
Relationship of Risk to the Evidence to be Obtained		
AS No. 5.47	Factors that affect the risk associated with a control include - • The nature and materiality of misstatements that the control is intended to prevent or detect; • The inherent risk associated with the related account(s) and assertion(s); • Whether there have been changes in the volume or nature of transactions that might adversely affect control design or operating effectiveness;	Issuer D

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
	• Whether the account has a history of errors; • The effectiveness of entity-level controls, especially controls that monitor other controls; • The nature of the control and the frequency with which it operates; • The degree to which the control relies on the effectiveness of other controls (e.g., the control environment or information technology general controls); • The competence of the personnel who perform the control or monitor its performance and whether there have been changes in key personnel who perform the control or monitor its performance; • Whether the control relies on performance by an individual or is automated (i.e., an automated control would generally be expected to be lower risk if relevant information technology general controls are effective); and Note: A less complex company or business unit with simple business processes and centralized accounting operations might have relatively simple information systems that make greater use of off-the-shelf packaged software without modification. In the areas in which off-the-shelf software is used, the auditor's testing of information technology controls might focus on the application controls built into the pre-packaged software that management relies on to achieve its control objectives and the IT general controls that are important to the effective operation of those application controls. • The complexity of the control and the significance of the judgments that must be made in connection with its operation. Note: Generally, a conclusion that a control is not operating effectively can be supported by less evidence than is necessary to support a conclusion that a control is operating effectively.	

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
AS No. 5.48	When the auditor identifies deviations from the company's controls, he or she should determine the effect of the deviations on his or her assessment of the risk associated with the control being tested and the evidence to be obtained, as well as on the operating effectiveness of the control. Note: Because effective internal control over financial reporting cannot, and does not, provide absolute assurance of achieving the company's control objectives, an individual control does not necessarily have to operate without any deviation to be considered effective.	Issuers A and D
AS No. 5.56	The additional evidence that is necessary to update the results of testing from an interim date to the company's year-end depends on the following factors - • The specific control tested prior to the as-of date, including the risks associated with the control and the nature of the control, and the results of those tests; • The sufficiency of the evidence of effectiveness obtained at an interim date; • The length of the remaining period; and • The possibility that there have been any significant changes in internal control over financial reporting subsequent to the interim date. Note: In some circumstances, such as when evaluation of the foregoing factors indicates a low risk that the controls are no longer effective during the roll-forward period, inquiry alone might be sufficient as a roll-forward procedure.	Issuer L
EVALUATING IDENTIFIED DEFICIENCIES		
AS No. 5.62	The auditor must evaluate the severity of each control **deficiency** that comes to his or her attention to determine whether the deficiencies, individually or in combination, are material weaknesses as of the date of management's assessment. In planning and performing the audit, however, the auditor is not required to search for deficiencies that, individually or in combination, are less severe than a material weakness.	Issuer A
AS No. 5.65	Risk factors affect whether there is a reasonable possibility that a deficiency, or a combination of deficiencies, will result in a misstatement of an account balance or disclosure. The	Issuer A

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

	factors include, but are not limited to, the following – • The nature of the financial statement accounts, disclosures, and assertions involved; • The susceptibility of the related asset or liability to loss or fraud; • The subjectivity, complexity, or extent of judgment required to determine the amount involved; • The interaction or relationship of the control with other controls, including whether they are interdependent or redundant; • The interaction of the deficiencies; and • The possible future consequences of the deficiency. Note: The evaluation of whether a control deficiency presents a reasonable possibility of misstatement can be made without quantifying the probability of occurrence as a specific percentage or range. Note: Multiple control deficiencies that affect the same financial statement account balance or disclosure increase the likelihood of misstatement and may, in combination, constitute a material weakness, even though such deficiencies may individually be less severe. Therefore, the auditor should determine whether individual control deficiencies that affect the same significant account or disclosure, relevant assertion, or component of internal control collectively result in a material weakness.	
AS No. 5.68	The auditor should evaluate the effect of compensating controls when determining whether a control deficiency or combination of deficiencies is a material weakness. To have a mitigating effect, the compensating control should operate at a level of precision that would prevent or detect a misstatement that could be material.	Issuers A and J
APPENDIX B - Special Topics		
Integration of Audits		
AS No. 5.B8	*Effect of Substantive Procedures on the Auditor's Conclusions About the Operating Effectiveness of Controls.* In an audit of internal control over financial reporting, the auditor should evaluate the effect of the findings of the substantive auditing procedures performed in the audit of financial statements on the effectiveness of internal control over financial reporting. This evaluation should include, at a minimum – • The auditor's risk assessments in connection with the selection and application of substantive	Issuers A and D

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	procedures, especially those related to fraud. • Findings with respect to illegal acts and related party transactions. • Indications of management bias in making accounting estimates and in selecting accounting principles. • Misstatements detected by substantive procedures. The extent of such misstatements might alter the auditor's judgment about the effectiveness of controls.	
AS No. 5.B9	To obtain evidence about whether a selected control is effective, the control must be tested directly; the effectiveness of a control cannot be inferred from the absence of misstatements detected by substantive procedures. The absence of misstatements detected by substantive procedures, however, should inform the auditor's risk assessments in determining the testing necessary to conclude on the effectiveness of a control.	Issuers B, E, G, H, I, L, and O

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
AS No. 13.8	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.	Issuers D, F, and J
AS No. 13.11	For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks. Note: Auditing Standard No. 12 discusses identification of significant risks[10/] and states that fraud risks are significant risks.	Issuer L
Footnote to AS No. 13.11 [10/] See paragraph 71 of Auditing Standard No. 12 for factors that the auditor should evaluate in determining which risks are significant risks.		
AS No. 13.13	*Addressing Fraud Risks in the Audit of Financial Statements*. In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance	Issuer F

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
	with paragraphs 16-17 of this standard, the auditor should perform tests of those controls.	
TESTING CONTROLS		
Testing Controls in an Audit of Financial Statements		
AS No. 13.16	*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 D, L, and N
Footnotes to AS No. 13.16 [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 No. 13.18	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 D, L, and N
SUBSTANTIVE PROCEDURES		
AS No. 13.37	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	Issuers D, L, and N

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
	appropriate evidence to respond to the assessed risk of material misstatement.	

AS No. 14, Evaluating Audit Results		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
AS No. 14.3	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.	Issuers B, D, E, G, H, and I
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS No. 14.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AU sec. 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuer H

AS No. 15, Audit Evidence		
SUFFICIENT APPROPRIATE AUDIT EVIDENCE		
Using Information Produced by the Company		
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	Issuer D

	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.	
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 Section 328, Auditing Fair Value Measurements and Disclosures		
Evaluating Conformity of Fair Value Measurements and Disclosures With GAAP		
AU 328.15	The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in conformity with GAAP. The auditor's understanding of the requirements of GAAP and knowledge of the business and industry, together with the results of other audit procedures, are used to evaluate the accounting for assets or liabilities requiring fair value measurements, and the disclosures about the basis for the fair value measurements and significant uncertainties related thereto.	Issuer C
TESTING THE ENTITY'S FAIR VALUE MEASUREMENTS AND DISCLOSURES		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AU 328.23	Based on the auditor's assessment of the risk of material misstatement, the auditor should test the entity's fair value measurements and disclosures. Because of the wide range of possible fair value measurements, from relatively simple to complex, and the varying levels of risk of material misstatement associated with the process for determining fair values, the auditor's planned audit procedures can vary significantly in nature, timing, and extent. For example, substantive tests of the fair value measurements may involve (*a*) testing management's significant assumptions, the valuation model, and the underlying data (see paragraphs .26 through .39), (*b*) developing independent	Issuer J

	fair value estimates for corroborative purposes (see paragraph .40), or (*c*) reviewing subsequent events and transactions (see paragraphs .41 and .42).	
AU 328.26	The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether: a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06). b. The fair value measurement was determined using an appropriate model, if applicable. c. Management used relevant information that was reasonably available at the time.	Issuers F, H, I, J, and M
AU 328.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers F, H, I, J, and M
AU 328.31	Assumptions ordinarily are supported by differing types of evidence from internal and external sources that provide objective support for the assumptions used. The auditor evaluates the source and reliability of evidence supporting management's assumptions, including consideration of the assumptions in light of historical and market information.	Issuer F
AU 328.39	The auditor should test the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management's assumptions. Specifically, the auditor evaluates whether the data on which the fair value measurements are based, including the data used in the work of a specialist, is accurate, complete, and relevant; and whether fair value measurements have been properly determined using such data and management's assumptions. The auditor's tests also may include, for example, procedures such as verifying the source of the data, mathematical recomputation of inputs, and reviewing of information for internal consistency, including whether such information is consistent with management's intent and ability to carry out specific courses of action discussed in paragraph .17.	Issuers J and M

AU Section 331, Inventories		
INVENTORIES		
AU 331.11	In recent years, some companies have developed	Issuer L

	inventory controls or methods of determining inventories, including statistical sampling, which are highly effective in determining inventory quantities and which are sufficiently reliable to make unnecessary an annual physical count of each item of inventory. In such circumstances, the independent auditor must satisfy himself that the client's procedures or methods are sufficiently reliable to produce results substantially the same as those which would be obtained by a count of all items each year. The auditor must be present to observe such counts as he deems necessary and must satisfy himself as to the effectiveness of the counting procedures used. If statistical sampling methods are used by the client in the taking of the physical inventory, the auditor must be satisfied that the sampling plan is reasonable and statistically valid, that it has been properly applied, and that the results are reasonable in the circumstances.	

AU Section 342, Auditing Accounting Estimates		
EVALUATING ACCOUNTING ESTIMATES		
Evaluating Reasonableness		
AU 342.11	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 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	Issuers B, D, F, and G

	significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	

AU Section 350, Audit Sampling		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AU 350.19	The second standard of field work states, "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." 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.[fn 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 D, L, and N
Footnote to AU 350.19 [fn 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.		
AU 350.23	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	Issuers D, L, and N

	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.	
AU 350.23A	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 D, L, and N
SAMPLE SELECTION		
AU 350.39	Sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an opportunity to be selected. Random-based selection of items represents one means of obtaining such samples. Ideally, the auditor should use a selection method that has the potential for selecting items from the entire period under audit. Paragraphs 44 through 46 of Auditing Standard No. 13, The Auditor's Responses to the Risks of Material Misstatement, describe the auditor's responsibilities for performing procedures between the interim date of testing and period end.	Issuer D