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Report on

2014 Inspection of RBSM LLP
(Headquartered in McLean, Virginia)

Issued by the

Public Company Accounting Oversight Board

October 1, 2015

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

2014 INSPECTION OF RBSM LLP

Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm RBSM 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 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 a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

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

PROFILE OF THE FIRM[1]

Number of offices	6 (Larkspur, California; New York, New York; McLean, Virginia; Athens, Hellenic Republic; Beijing, People's Republic of China; and Mumbai, Republic of India)
Ownership structure	Limited liability partnership
Number of partners	7
Number of professional staff[2]	27
Number of issuer audit clients	60

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

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

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from June 16, 2014 to June 26, 2014, October 23, 2014, and December 12, 2014.[3]

A. Review of Audit Engagements

The inspection procedures included a review of portions of six issuer audits performed by the Firm. The inspection team identified matters that it considered to be a deficiency in the performance of the work it reviewed.

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

One of the deficiencies identified was 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

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

were presented fairly, in all material respects, in accordance with the applicable financial reporting framework. In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that the deficiency reaches this level of significance does not necessarily indicate that the financial statements are misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[4]

The audit deficiency that reached this level of significance is described below–

Issuer A

> the failure to perform sufficient procedures to test the occurrence and valuation of revenue, including the inadequate performance of substantive analytical procedures (AS No. 13, paragraph 11; AS No. 15, paragraph 27; AU 329, paragraphs .17, .20, and .21; and AU 350, paragraph .17)

B. Auditing Standards

The deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits, including both the paragraphs of the

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[4] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and the inspections staff may include in its procedures monitoring or assessing a firm's compliance.

standards that are cited at the end of the 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 ("AS") 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, and 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) 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 the deficiency included in Part I.A of this report. See the description of the deficiency in Part I.A for identification of the specific paragraphs, in addition to those noted above, that relate to that deficiency. Standards discussed above are cited again in the table only if the particular deficiency relates to aspects of the standard that are not discussed above.

PCAOB Auditing Standards	Issuer
AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*	A
AS No. 15, *Audit Evidence*	A
AU 329, *Substantive Analytical Procedures*	A

PCAOB Auditing Standards	Issuer
AU 350, *Audit Sampling*	A

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

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement

misstatements, including failures to comply with disclosure requirements,[5] as well as a firm's failures to perform, or to perform sufficiently, certain necessary audit procedures. The inspection may 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 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.

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[5] 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.

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.[6]

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

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

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

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

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[6] 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.

firm's quality control system.[7] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;[8] related firm methodology, guidance, and practices; and possible root causes.

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

END OF PART I

[7] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system.

[8] An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

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

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[9]

[9] 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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August 4, 2015

Ms. Helen A. Munter
Director
Divisions of Inspections
Public Company Accounting Oversight board
1666 K Street, N.W.
Washington, D.C. 20006

Re: Public Response to Draft Report of 2014 Inspection Report of RBSM LLP

Dear Ms. Munter:

We are in receipt of the above referenced Draft Inspection Report (the "Report") and appreciate the opportunity to make this submission to be included, and be part of, the public portion of the final Report.

Comment Part I A Review of Audit Engagements

Issuer A

"Failure to Perform Sufficient Procedures to test occurrence and valuation of revenue, including inadequate performance of substantive analytic procedures".

Firm response

We respectfully disagree with the Report's finding alleging a deficiency in the performance of our examination of Issuer A's financial statements (the "Issuer").

We base our disagreement on upon the following facts and circumstances:

Auditor's responsibility to risks of material misstatement

RBSM LLP ("RBSM" or the "Firm") took into account the guidance in *PCAOB AS 13, Auditor's Responses to the Risks of Material Misstatement, (Paragraphs 8, 9(a-b), 11, 39, 40, 41 and 42).*

RBSM , via detail test of transactions, examined *92% of the Issuer's accounts receivable balance as of the balance sheet date and approximately 72% of it's aggregate asserted revenues , with no exceptions.* The testing included 100% of the items considered to be individually significant.

Therefore, we believe that the likelihood of an error (material misstatement) in the remaining 28% of revenues not tested was statistically and extremely remote since the results of our testing of the Issuer's related accounts receivable, cash, and inventory balances were deemed to be reasonable, reliable and relevant.

Based upon the competent and sufficient evidential matter obtained supporting the Company's assertions in the financial statements, RBSM concluded the Issuer's revenues were fairly stated for the period examined.

Audit Evidence

RBSM designed and conducted tests of revenues in accordance with the guidance provided by *AU 312, Audit Risk and Materiality,* which allows for the use of professional judgment and is influenced by the auditor's perception of the needs of the users of the financial statements. In accordance with the standards, RBSM used the examination of detailed transactions and analytical procedures to test revenues, a critical audit area. RBSM tested the revenue, cost of goods sold and gross margins (disaggregated by product type and by month) for aggregate reported revenues and tested the related accounts receivable balances and cash accounts.

Based upon the competent and sufficient evidential matter obtained supporting the Company's assertions in the financial statements, RBSM concluded the Issuer's reported revenues were fairly stated for the period examined.

Substantive Analytical Procedures

Based on the results of the assessment of the Issuer's internal controls over financial reporting, RBSM utilized a substantive approach in regards to testing of reported revenues, which required the planned level of detection risk to be low. Accordingly audit assurance for revenue was obtained primarily from tests of details of transactions or balances, and the level of assurance needed from such substantive tests was high. The results from test of details performed provided competent evidence that the revenue transactions were being processed and recorded in accordance with Generally Accepted Accounting Principles ("GAAP"). Even though the level of assurance from substantive test of details performed was high, RBSM also obtained additional assurance from analytical procedures and the auditor's knowledge of the business and industry. We conducted analytical procedures because they were cost effective and efficient at identifying accounts that may contain unintentional misstatements.

In designing the substantive analytical procedures, RBSM considered consider the following:

- The suitability of the substantive analytical procedure given the assertion.

- The reliability of the data, whether internal or external, from which the expectation of recorded amounts or ratios is developed.

- Whether the expectation is sufficiently precise to identify a material misstatement at the desired level of assurance. If analytical review procedures were the sole substantive test, we acknowledge expectations were not sufficiently precise to be in accordance with AU 329. However, RBSM, as noted in this response, did not solely rely on substantive analytical review procedures for testing revenues, but conducted other substantive tests of detail transactions. The test of detailed transactions covered majority

of the revenue account balances and the corresponding accounts receivable and cash account balances. *RBSM tested over 70% of the gross revenue reported and related accounts receivable*. RBSM performed tests of detailed transactions directly to income statement accounts when evidence obtained from tests of related balance sheet accounts did not reduce detection risk to an acceptably low level.

Accordingly, based upon the results of other substantive tests, facts and circumstances, along with the analysis of audit evidence obtained by RBSM, there is no basis for the deficiency described in the Report.

Conclusion

In conducting the audit of Issuer's financial statements, RBSM followed the guidance provided by *AU 312, Audit Risk and Materiality*, which allows for the use of professional judgment and is influenced by the auditor's perception of the needs of the users of the financial statements.

RBSM conducted and performed the procedures necessary to obtain sufficient and competent evidential matter testing the occurrence and valuation of Issuer's reported revenues.

RBSM acknowledges the execution of analytical procedures is highly subjective and experienced professionals can disagree on the performance and documentation of these procedures.

RBSM is committed to achieving the highest level of audit quality. Accordingly, RBSM has undertaken steps to address the subjectivity in future audit engagements with the goal of clearly and explicitly documenting the analytical procedures performed.

We found the inspection process to be a valuable source of feedback in our ongoing process to increase audit quality. We would like to thank the inspection team for their professional and courteous manner in performing their work. RBSM partners and staff are grateful for their diligent efforts.

We thank you for the opportunity to provide our response to the draft report and look forward to continuing to work with the PCAOB in matters of interest to our public company attest practice.

Sincerely,

RBSM LLP

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I

This Appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this Appendix, and any other Notes, are from the original auditing standards that are referenced. While this Appendix contains the specific portions of the relevant standards cited with respect to the deficiency 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. 13, *The Auditor's Responses to the Risks of Material Misstatement*		
RESPONSES TO SIGNIFICANT RISKS		
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 A
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. 15, *Audit Evidence*		
SELECTING SPECIFIC ITEMS		
AS No. 15.27	The application of audit procedures to items that are selected as described in paragraphs 25-26 of this standard does not constitute audit sampling, and the results of those audit procedures cannot be projected to the entire population.[12]	Issuer A
Footnote to AS No. 15.27 [12] If misstatements are identified in the selected items, see paragraphs 12-13 and paragraphs 17-19 of Auditing Standard No. 14.		

AU 329, *Substantive Analytical Procedures*		
Precision of the Expectation		
AU 329.17	The expectation should be precise enough to provide the desired level of assurance that differences that may be potential material misstatements, individually or when aggregated with other misstatements, would be identified for the auditor to investigate (see paragraph .20). As	Issuer A

	expectations become more precise, the range of expected differences becomes narrower and, accordingly, the likelihood increases that significant differences from the expectations are due to misstatements. The precision of the expectation depends on, among other things, the auditor's identification and consideration of factors that significantly affect the amount being audited and the level of detail of data used to develop the expectation.	
Investigation and Evaluation of Significant Differences		
AU 329.20	In planning the analytical procedures as a substantive test, the auditor should consider the amount of difference from the expectation that can be accepted without further investigation. This consideration is influenced primarily by materiality and should be consistent with the level of assurance desired from the procedures. Determination of this amount involves considering the possibility that a combination of misstatements in the specific account balances, or class of transactions, or other balances or classes could aggregate to an unacceptable amount.	Issuer A
AU 329.21	The auditor should evaluate significant unexpected differences. Reconsidering the methods and factors used in developing the expectation and inquiry of management may assist the auditor in this regard. Management responses, however, should ordinarily be corroborated with other evidential matter. In those cases when an explanation for the difference cannot be obtained, the auditor should obtain sufficient evidence about the assertion by performing other audit procedures to satisfy himself as to whether the difference is a misstatement. In designing such other procedures, the auditor should consider that unexplained differences may indicate an increased risk of material misstatement. (See Auditing Standard No. 14, Evaluating Audit Results.)	Issuer A

AU 350, *Audit Sampling*		
Planning Samples		
AU 350.17	When planning a particular sample, the auditor should consider the specific audit objective to be achieved and should determine that the audit procedure, or combination of	Issuer A

	procedures, to be applied will achieve that objective. The auditor should determine that the population from which he draws the sample is appropriate for the specific audit objective. For example, an auditor would not be able to detect understatements of an account due to omitted items by sampling the recorded items. An appropriate sampling plan for detecting such understatements would involve selecting from a source in which the omitted items are included. To illustrate, subsequent cash disbursements might be sampled to test recorded accounts payable for understatement because of omitted purchases, or shipping documents might be sampled for understatement of sales due to shipments made but not recorded as sales.	