1666 K Street NW
Washington, DC 20006
Office: (202) 207-9100
Facsimile: (202) 862-8430
www.pcaobus.org

Report on

2017 Inspection of PricewaterhouseCoopers LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

February 28, 2019

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

PCAOB RELEASE NO. 104-2019-044

2017 INSPECTION OF PRICEWATERHOUSECOOPERS LLP

TABLE OF CONTENTS FOR PART I OF THE INSPECTION REPORT

EXECUTIVE SUMMARY

Audit Opinions Affected by the Identified Deficiencies 2
Most Frequently Identified Audit Deficiencies 3
Areas in which Audit Deficiencies Were Most Frequently Identified 3

PART I – INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

A. Review of Audit Engagements 6

B. Auditing Standards 24
B.1. List of Specific Auditing Standards Referenced in Part I.A 25
B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies 27
B.3. Audit Deficiencies by Industry 28

C. Data Related to the Issuer Audits Selected for Inspection 29
C.1. Industries of Issuers Inspected 29
C.2. Revenue Ranges of Issuers Inspected 30

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms 31
D.1. Reviews of Audit Work 31
D.2. Review of a Firm's Quality Control System 32

APPENDIX B - RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT B-1
APPENDIX C - AUDITING STANDARDS REFERENCED IN PART I C-1

EXECUTIVE SUMMARY

In 2017, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm PricewaterhouseCoopers LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act"). The inspection procedures included reviews of portions of the Firm's work on 55 issuer audits, which generally related to issuer year ends in 2016.

The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed. In 13 audits, certain of these deficiencies 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. These deficiencies are described in Part I.A of the report.

The Board cautions against using the number of audits with deficiencies in the public portion of a report to draw conclusions about the frequency of deficiencies throughout the firm's practice. The audits to be reviewed are most often selected based on perceived risk and not through a process designed to identify a representative sample that could be extrapolated to the firm's entire practice. The portions of these audits that are reviewed often involve the most risky areas of the financial statements. Thus, much of the audit work that is inspected presents, in the inspection team's view, a heightened possibility of auditing deficiencies.

In the 2017 inspection, the inspection team also assessed the Firm's system of quality control related to issuer audits. Pursuant to the Act, any criticisms or discussions of defects or potential defects in that system will remain nonpublic unless the Firm fails to address those criticisms or defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Audit Opinions Affected by the Identified Deficiencies

Forty-nine of the 55 engagements inspected were integrated audits of both internal control and the financial statements. As depicted in the table below, the inspection team identified deficiencies in both financial statement audits and audits of internal control over financial reporting ("ICFR"). One of the deficiencies described in Part I.A of this report relates to auditing an aspect of an issuer's financial statements to which the issuer made adjustments after the primary inspection procedures.[1] Certain

---

[1] The 2017 inspection did not include review of any additional audit work related to the adjustments.

deficiencies described in Part I.A of this report relate to testing controls in audits of ICFR for which, after the primary inspection procedures, the Firm revised its opinions on the effectiveness of the issuer's ICFR to express an adverse opinion.

	Number of Audits
Audits for which deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	9 Audits: Issuers A, B, C, D, E, F, I, J, and K
Audits for which deficiencies included in Part I.A related to the ICFR audit only	2 Audits: Issuers L and M
Audits for which deficiencies included in Part I.A related to the financial statement audit only	2 Audits: Issuers G and H
Total	13

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that appear most frequently in Part I.A of this report and shows which issuer audits included these deficiencies.

Issue	Part I.A Audits
Failure to identify and test any controls that addressed the risks related to a particular account or assertion	7 Audits: Issuers A, B, C, D, E, L, and M
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	6 Audits: Issuers A, B, F, I, J, and K
Failure to sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	6 Audits: A, B, F, H, I, and K

Areas in which Audit Deficiencies Were Most Frequently Identified

The following table lists, in summary form, the financial statement accounts or auditing areas in which the deficiencies that are included in Part I.A of this report most frequently occurred.

Area	Part I.A Audits
Revenue, including accounts receivable and deferred revenue	8 Audits: Issuers C, D, E, G, I, J, L, M
Impairment of goodwill or other long-lived assets	2 Audits: Issuers A and F
Business combinations	2 Audits: Issuers B and H

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Inspections are designed and performed to assess compliance with applicable standards and requirements. The inspection team reviews both (1) selected audits and (2) policies and procedures related to quality control processes. The primary procedures[2] for the inspection were performed from November 2016 to March 2018. Inspectors conducted field work at the Firm's National Office and inspected issuer audits performed by 27 of the Firm's approximately 67 U.S. practice offices.

Part I.A includes a description of all audit deficiencies that reach a defined level of significance, which is described below. These deficiencies are categorized in various ways in both Part I.B and the Executive Summary. Part I.C of this report provides certain demographic information about all of the audits inspected. Part I.D provides a general description of the procedures performed in an annual inspection.

Inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control. This focus on deficiencies and defects necessarily carries through to inspection reports and, therefore, the reports are not intended as balanced report cards or overall rating tools. Further, the lack of discussion within a report of an aspect of the inspected firm's quality control system should not be interpreted to imply that the Board has reached a conclusion about that aspect. Similarly, an inspection of an annually inspected firm does not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, an 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 described in that report.

[2] For this purpose, the time span for "primary procedures" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

The inspection team's evaluation of the Firm's quality control system included both (1) a review of certain aspects of the Firm's quality control system and (2) an assessment of whether the deficiencies identified in individual audits indicate defects or potential defects in the Firm's system of quality control.

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 54 issuer audits performed by the Firm and a review of the Firm's audit work on one other issuer audit engagement in which the Firm played a role but was not the principal auditor.

Certain of the deficiencies were of such significance that the inspection team determined that the Firm issued an opinion without obtaining sufficient appropriate audit evidence that the financial statements were free of material misstatement and/or the issuer maintained effective ICFR. These deficiencies are described in Part I.A. The descriptions in Part I.A include references to the auditing standards that most directly relate to those deficiencies. (See Appendix C for the text of these standards.) References to provisions of the auditing standards that generally address all aspects of the audit are provided only when lack of compliance with these standards is the primary reason for the deficiency.[3]

Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. In many cases, the Firm has since performed remedial actions intended to address the deficiencies.[4] That an audit deficiency reached the level of significance to be included in Part I.A of an inspection report does not mean that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection

---

[3] These broadly applicable provisions are described in Part I.B of this report.

[4] 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. An inspection normally includes a review, on a sample basis, 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 could be a basis for criticisms of the firm's quality control system or Board disciplinary sanctions.

team to reach a conclusion on those points because the inspection team usually has only the information the auditor retained and the issuer's public disclosures. Even when not associated with a disclosed misstatement or previously unidentified material weakness, an auditor's failure to obtain sufficient appropriate audit evidence is a serious matter.

The audit deficiencies that were so significant that it appeared that the audit opinion was unsupported are described in Parts I.A.1 through I.A.13, below. Issuer audits are generally presented in the order of significance of the deficiencies identified in the inspections of those audits; severity is assessed based on extent of the deficiencies identified in the audit, financial statement accounts affected, and/or potential consequences of the audit deficiency.

Audit Deficiencies

A.1. Issuer A

In this audit of an issuer in the energy industry sector, 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 issuer reported declining revenue and gross profit for the last several years, primarily due to declining prices and decreased demand within its industry. The issuer's properties within each segment engaged in different types of sourcing and production activities. Certain of the issuer's properties were inactive or idle at year end. The Firm's procedures related to the valuation of long-lived assets were insufficient, as follows –

  - The issuer documented that its policy was to group long-lived assets together at the segment level when evaluating the assets for possible impairment, as the cash flows from its properties within each of its segments were largely interdependent. The Firm failed to perform sufficient procedures related to the issuer's determination of asset groupings for purposes of the evaluation of long-lived assets for possible impairment. Specifically, the Firm failed to –

    - Identify and test any controls over the issuer's determination of asset groupings and its identification of potential indicators of impairment related to long-lived assets. (AS 2201.39)

    - Sufficiently evaluate the reasonableness of management's assertion that the cash flows from its properties were largely interdependent, as the Firm's procedures were limited to reading an issuer-prepared memorandum and noting that the issuer also grouped its assets at the segment level when it performed its goodwill impairment analyses. The Firm failed to consider that the issuer (1) identified indicators of potential impairment related to certain of its properties individually, (2) prepared cash-flow forecasts and performed impairment analyses for these individual properties, and (3) recorded significant asset impairment charges related to certain of these properties. (AS 2501.11; AS 2810.03)

- The issuer's most significant asset impairment charge for the year, which was multiple times the Firm's established level of materiality, related to one of the issuer's idled properties; the issuer determined this impairment charge using a discounted cash-flow analysis. Other impairment charges recorded during the year were based on other valuation methods. The Firm selected for testing a control over the determination of impairment charges that included the preparation and review of cash-flow analyses that were used to estimate the fair value of long-lived assets. The Firm failed to sufficiently test this control, as it selected for testing only impairments that were based on other methods of valuation. (AS 2201.42 and .44)

- The Firm's substantive testing of the forecasted cash flows the issuer used in its impairment analysis for the property discussed above was insufficient. Specifically, the Firm's procedures to evaluate the reasonableness of certain significant assumptions underlying these forecasted cash flows were limited to comparing these assumptions to assumptions the issuer used in its prior-year goodwill impairment analysis. The Firm, however, failed to evaluate whether these assumptions were appropriate for the purpose of the impairment analysis for this property in the year under audit. (AS 2502.26, .28, .31, and .36)

- The issuer recorded an expense to write off all of the inventory located at another idled property, but it determined that there was no impairment of the long-lived assets located at the property based on the results of the goodwill impairment test that it had performed in the prior year. The Firm failed to evaluate the reasonableness of management's assertion that no impairment of these long-lived assets existed. (AS 2301.08)

- The Firm failed to perform sufficient procedures related to the valuation of inventory. Specifically –

  - The Firm selected for testing a control that included the preparation and review of the issuer's excess and obsolete inventory reserve analysis. The Firm failed to sufficiently test this control, as its procedures were limited to (1) inquiring of the preparer of the reserve analysis, (2) verifying that the preparer had documented general explanations for certain inventory items, and (3) inspecting evidence indicating that a review had occurred. The Firm failed to evaluate the nature of the review activities the control owners performed to evaluate the reasonableness of this inventory reserve. In addition, the Firm failed to identify and test any controls over the accuracy of certain spreadsheets used in the operation of this control. (AS 2201.39, .42, and .44)

  - The Firm selected for testing an automated control over the allocation of costs to finished goods inventory that consisted of the system's calculation of the value of this inventory using standard costs from the inventory-management system. The Firm's procedures to test this control consisted of inquiring of management and selecting one item that was sold during the year to determine that the correct amount was relieved from inventory and recorded to cost of goods sold. The Firm, however, failed to test whether this automated control would correctly apply standard costs to finished goods inventory. (AS 2201.42 and .44)

  - The Firm's substantive procedures to test inventory were insufficient in the following respects –

    - The Firm failed to test the quantities included in the bills-of-materials that were used to value the work-in-process and finished goods inventory items that it selected for testing at year end. (AS 2301.08)

    - The Firm's procedures to evaluate the reasonableness of the excess and obsolete inventory reserve included testing the issuer's reserve analysis. The Firm, however, failed to test the accuracy of certain spreadsheets that the issuer used in this analysis. (AS 2501.11)

- For certain inventory that the issuer identified as potentially excess or obsolete, the Firm failed to sufficiently evaluate the reasonableness of management's conclusions that no inventory reserve or write-off was required, as its procedures were limited to reading management's explanations, without obtaining corroboration of those explanations. (AS 2501.11)

A.2. <u>Issuer B</u>

In this audit of an issuer in the financials industry sector, 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 procedures related to loans receivable, including loans acquired as part of the current-year acquisition described below, were insufficient. Specifically –

  o The issuer estimated the general reserve component of the allowance for loan losses ("ALL") for its consumer loan portfolio using a model that included a probability-of-default ("PD") assumption, a loss-given default ("LGD") assumption, and forecasted loan charge-off data as significant inputs into the model. The issuer derived its PD and LGD assumptions based on data maintained in its loan origination and loan servicing systems. The Firm's procedures to test controls over this component of the ALL were insufficient in the following respects –

    - The Firm failed to identify and test any controls over the accuracy of certain data that were maintained in the loan origination systems and that the issuer used to derive the PD and LGD assumptions. (AS 2201.39)

    - The issuer also used certain data from its loan servicing systems to derive the PD and LGD assumptions. The issuer initially entered these data into its loan origination systems, and then transferred the data to its loan servicing systems. The Firm identified and tested controls over the reconciliation of these data in the loan origination systems to source documents. The Firm, however, did not test ITGCs over the issuer's loan origination systems and failed to identify and test any other controls over the accuracy and completeness of the data transferred from the loan origination systems to the loan servicing systems. (AS 2201.39)

- The Firm selected for testing a control over forecasted loan charge-off data that consisted of the issuer's comparison of forecasted charge-offs to actual results to assess the forecasted charge-offs for reasonableness. The Firm's procedures to test this control were limited to inquiring of the control owner and inspecting documentation to verify that the control owner had provided explanations for variances that exceeded a monetary threshold. The Firm, however, failed to evaluate whether the items identified for follow-up were appropriately resolved. (AS 2201.44)

o The Firm selected for testing a control that included the review of the reasonableness of the issuer's loan grades for commercial loans. The loan grades were an important input into the estimation of the general reserve component of the ALL for the commercial loan portfolio. The Firm performed procedures to evaluate the reasonableness of the loan grades for the loans it selected for testing, but it failed to ascertain and evaluate the specific procedures that the control owners performed to assess the reasonableness of the loan grades. (AS 2201.42 and .44)

o The Firm's substantive procedures to test the outstanding balances of commercial and consumer loans were insufficient. Specifically –

- The Firm performed targeted testing by selecting loans that exceeded certain monetary thresholds. The Firm's procedures to test the selected loans were insufficient, as its procedures were limited to obtaining the original loan agreement for each selection and (1) comparing the outstanding balance of the loan to the original loan amount to determine whether the outstanding balance was less than the original loan amount or (2) noting that the loan was not delinquent. (AS 2301.08)

- The Firm performed confirmation procedures for (1) a sample of loans that were originated in the current year as of an interim date and (2) a sample of acquired loans as of the acquisition date. The Firm performed roll-forward procedures to extend its conclusions from the interim testing and acquisition dates to year end. The Firm's testing was insufficient in the following respects –

  - The Firm used nonstatistical sampling approaches to select both samples. The Firm designed these nonstatistical samples to provide only a very low level of assurance. Given the low level of evidence provided by the other substantive procedures to test the outstanding balances described below, these samples were too small to provide sufficient evidence. (AS 2301.42; AS 2315.19, .23, and .23A)

    - With respect to the first sample, the Firm's other substantive procedures to test the outstanding balances for this population of loans consisted of the targeted testing described above and testing account reconciliations. The targeted testing procedures, even if performed sufficiently, would have provided evidence only about the items tested, which were not selected to be representative of the population, and the reconciliation procedures provided only limited evidence regarding the outstanding loan balances.

    - With respect to the second sample, the Firm's other substantive procedures to test the outstanding balances for acquired loans consisted of (1) comparing the account balance as of the quarter immediately prior to the acquisition to the prior year and inquiring of management for changes that exceeded the Firm's established level of materiality and (2) testing account reconciliations. The comparison was not designed to detect potential misstatements that could be material, and the reconciliation procedures provided only limited evidence regarding the outstanding loan balances.

- The Firm's alternative procedures for confirmations not returned and its roll-forward procedures were insufficient, as both of these procedures were limited to obtaining the original loan agreement for each item and (1) comparing certain loan information from the applicable loan system to the original loan agreement and (2) comparing the outstanding balance of the loan to the original loan amount to determine whether the outstanding balance was less than the original loan amount. (AS 2301.08)

▪ The Firm failed to perform any procedures, other than testing account reconciliations and the targeted testing that was insufficient as described above, to test a significant portion of the issuer's outstanding loans. (AS 2301.08)

- During the year, the issuer acquired a significant business. The Firm's testing of the assumed deposit liabilities and acquired core deposit intangible asset ("CDIA") was insufficient, as follows –

o The Firm's procedures to test the valuation of the assumed deposit liabilities consisted of (1) comparing the account balance as of the quarter immediately prior to the acquisition to the prior year and inquiring of management for changes that exceeded the Firm's established level of materiality; (2) testing certain accounts related to deposit liabilities, including cash and investments, as of year end; (3) testing a sample of account reconciliations; and (4) performing confirmation procedures. These procedures were insufficient, as (1) the first three procedures provided only limited evidence about the valuation of the assumed deposit liabilities and (2) the sample size that the Firm used for the fourth procedure was determined based on an attribute sampling methodology that did not appropriately take into account tolerable misstatement for the population, which resulted in a sample size that provided only a very low level of substantive assurance regarding the valuation of the assumed deposit liabilities. (AS 2301.42; AS 2315.16, .18, .18A, .23, and .23A)

- o The issuer used certain information related to the assumed deposit liabilities, along with certain assumptions, to determine the fair value of the CDIA. As a result of the deficiencies in the Firm's testing of the assumed deposit liabilities that are discussed above, the Firm also failed to sufficiently test the fair value of the acquired CDIA. (AS 2502.39)

A.3. Issuer C

In this audit of an issuer in the materials industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as its procedures related to revenue were insufficient. Specifically –

- The issuer recorded the majority of its revenue based on the weight of the goods sold or the weight of the raw materials used to produce the goods. The Firm's procedures to test controls over this revenue were not sufficient, as it failed to identify and test any controls over the accuracy of the weights that were entered into the revenue systems and used to determine the quantity to be billed to customers. (AS 2201.39)

- The Firm used the work of the issuer's information technology management group ("IT group") as evidence of the effectiveness of the controls over the accuracy and completeness of reports the issuer used in the operation of certain controls over this revenue that the Firm tested. The IT group used a benchmarking strategy for its testing in which the baselines had been established in prior years. The Firm's procedures to evaluate the effectiveness of the IT group's work were not sufficient, as the Firm failed to –

  - o Assess the (1) objectivity of the issuer's IT group, other than noting that the IT group was not involved in the performance of the relevant controls, and (2) competence of the individual from the issuer's IT group who performed the testing of the majority of the reports in prior years, beyond inquiring of management, and (AS 2605.10-.11)

- o Evaluate the work of the issuer's IT group, or perform other procedures, to determine that a benchmarking strategy was appropriate for these controls. (AS 2201.B29; AS 2605.24)

- The Firm designed certain of its substantive procedures – including the sample sizes used in those procedures – 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, the sample sizes that the Firm used to test this revenue were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.4. Issuer D

In this audit of an issuer in the industrials industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer derived the majority of its revenue from product sales by two business units. The Firm's procedures related to this revenue were insufficient, as follows –

- For these two business units, the issuer manually entered customer orders into the sales systems that were used to process revenue transactions. Product prices that differed from the standard pricing in these systems required management approval. The Firm identified likely sources of potential misstatement related to the accurate entry of customer orders into the systems and the approval of customer prices. In response, the Firm identified (1) various automated controls related to the generation of sales invoices and recording of revenue in the general ledger using information that was entered into the sales systems, (2) a system user-access control over who could update prices in the sales systems, and (3) controls to evaluate whether revenue was recorded in the appropriate period. These controls, however, were not designed to address the identified risks related to the inaccurate entry of orders and unapproved product prices, and the Firm failed to identify and test any other controls that did so. (AS 2201.39)

- For one of the issuer's business units, the Firm designed certain of its substantive procedures – including the sample sizes used in those procedures – based on a level of control reliance that was not supported due to the deficiency in the Firm's testing of controls that is discussed above. As a result, the sample sizes that the Firm used to test the allocation assertion for this revenue for this business unit were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- For this same business unit, the issuer tracked delivery dates for products sold using an internal system, and the Firm used these delivery dates as evidence for the majority of the sales transactions that it selected for cut-off testing. The Firm, however, failed to test this system or otherwise obtain evidence of the accuracy of these delivery dates. (AS 1105.10)

A.5. Issuer E

In this audit of an issuer in the industrials industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient procedures related to revenue. Specifically –

- The issuer recognized a significant portion of its revenue for one of its segments based on units of measure, such as size or weight, that were manually entered into the issuer's revenue system. The Firm identified a likely source of potential misstatement related to the accurate entry of pricing and units into the system and, in response, selected for testing seven controls. The Firm concluded that two of these controls were not operating effectively at year end. Four of the remaining controls consisted of (1) authorized access to edit prices and discounts within the revenue system; (2) approval of prices and discounts input into the revenue system; (3) approval of adjustments to customer account balances above certain monetary thresholds; and (4) authorized access to post revenue transactions, credit memoranda, and return transactions within the general ledger. These four controls were not designed to address the risk related to the accurate entry of units into the issuer's revenue system. The remaining control consisted of a quarterly comparison of certain revenue metrics for the current year to those metrics for the prior year with general explanations for variances over certain thresholds. This control, however, was not designed to operate at a level of precision that would detect a material misstatement related to the number of units sold, as (a) it would not identify situations where a recorded amount was inaccurate but was consistent with the prior year and (b) the explanations for differences merely pointed to the products and/or geographic areas where the differences occurred, and not the reasons for the differences. (AS 2201.39)

- The Firm designed certain of its substantive procedures – including the sample sizes used in those procedures – based on a level of control reliance that was not supported due to the deficiency in the Firm's testing of controls that is discussed above. As a result, the sample sizes that the Firm used to test this revenue were too small to provide sufficient evidence. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

A.6. Issuer F

In this audit of an issuer in the health care industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient procedures related to the valuation of goodwill. Specifically –

- The Firm selected for testing a control that consisted of the preparation and successive reviews of the issuer's annual goodwill impairment analysis, including an assessment of the reasonableness of the revenue-growth assumptions used in the underlying forecast. The Firm's testing of this control was limited to inquiring of one of the reviewers and inspecting documentation prepared in the performance of the control. The Firm failed to evaluate the nature of the procedures that the control owners performed to assess the reasonableness of the revenue-growth assumptions, including the criteria the control owners used to identify items for follow up and how those items were resolved. (AS 2201.42 and .44)

- The Firm failed to perform sufficient substantive procedures to test the discounted cash-flow forecasts that the issuer used to determine the fair value of its business for purposes of its annual goodwill impairment analysis. Specifically –

    - The Firm's procedures to evaluate the reasonableness of the revenue-growth assumptions underlying the discounted cash-flow forecasts consisted of (1) inquiring of management, which included obtaining an understanding of the status of the regulatory approvals for certain of the issuer's products; (2) comparing forecasted revenue for three products for the first year of the forecast period to actual revenue for that period and noting that the actual revenue for two of the products was significantly less than the forecast; and (3) reading a sample of sales contracts for one product. These procedures were insufficient, as the Firm failed to evaluate the differences it identified in its comparison of forecasted revenue to actual revenue. The Firm also obtained and read certain general market information contained in external analysts' reports, but neither this information nor the other procedures the Firm performed provided evidence about the issuer's ability to use the market opportunities described in the reports. (AS 2502.26 and .28)

- o The discounted cash-flow forecasts included decreases to the cash flows related to anticipated changes in working capital. The Firm failed to perform any procedures to evaluate the reasonableness of these working capital assumptions. (AS 2502.26 and .28)

A.7. Issuer G

In this audit of an issuer in the industrials industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as it failed to perform sufficient procedures to test revenue for the issuer's domestic segments. The Firm identified a fraud risk related to the possible recording of fictitious revenue transactions. The Firm tested controls over the occurrence of revenue with an intent to obtain "partial" controls reliance. The substantive procedures the Firm performed to test the occurrence of revenue consisted of:

(1) testing a small number of transactions at year end to assess whether revenue was recorded in the appropriate period,

(2) requesting accounts receivable confirmations as of an interim date and performing roll-forward testing for only certain of the issuer's domestic segments to the end of the year,

(3) testing credit memoranda for only certain of the issuer's domestic segments,

(4) performing journal entry testing, and

(5) performing targeted testing of the ten largest revenue transactions for each domestic segment, which represented a very small portion of total domestic revenue.

The first and second procedures provided some evidence about the occurrence of revenue but only for a portion of the year. The third and fourth procedures provided evidence about the risks related to the occurrence of revenue but provided only limited evidence about that assertion. The fifth procedure provided evidence only about the small portion of revenue that was tested because the transactions were not selected to be representative of the population. In order to address the occurrence of revenue for the large portion of the year not covered by the first and second procedures, the Firm used a nonstatistical sampling approach to select a sample of revenue transactions from throughout the year. This sample was designed to provide only a very low level of assurance, and, given the low level of evidence provided by the other procedures discussed above, this nonstatistical sample was too small to provide sufficient evidence. (AS 2301.37 and .42; AS 2315.19, .23, and .23A)

A.8. Issuer H

In this audit of an issuer in the industrials industry sector, the Firm failed in the respects described below to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. During the year, the issuer acquired a significant business, and it determined the fair value of certain acquired intangible assets and an assumed liability using forecasts of sales and cash flows. The Firm's procedures to evaluate the reasonableness of these forecasts were insufficient –

- The Firm compared the forecasted results for the first year of the forecast period to the issuer's actual results and noted that the actual results for one of the issuer's largest reporting units were significantly lower than the forecasted results. Management asserted that the differences between the forecasted and actual results were due to a decline in oil prices, which affected the price of many of the issuer's products. The Firm limited its procedures to evaluate this assertion to inquiring of management, without obtaining evidence that there was a sufficient correlation between oil prices and the performance of this reporting unit to explain the differences. (AS 2502.26, .28, .31, and .36)

- As part of its assessment of the reasonableness of the issuer's forecasts, the Firm obtained certain oil and gas industry information related to future trends in oil prices. The Firm noted that the issuer's forecasts assumed that oil prices would rise to pre-acquisition prices in the second year of the forecast period. The Firm, however, failed to consider that the industry information it had obtained indicated that oil prices were not expected to return to the pre-acquisition prices until at least the third year of the issuer's forecast period. (AS 2502.26, .28, .31, and .36; AS 2810.03)

- The issuer determined the fair value of its acquired customer-relationship intangible assets based on forecasted revenue for a category of specialized products. To determine the revenue attributable to these products, the issuer prepared a report that included the historical revenue, by product, for the two years before the acquisition year and classified each product as either specialized or general ("classification report"). For one of its reporting units, the issuer further analyzed the product types and reclassified the revenue from certain sales of certain general product types to revenue from specialized product types ("reclassification adjustments"). While the Firm performed procedures to test the accuracy and completeness of the classification report, the Firm's testing of the issuer's reclassification adjustments was insufficient, as it failed to –
    - Assess the reasonableness of the methodology the issuer used to determine the reclassification adjustments. (AS 2502.26, .28, .31, and .36)
    - Evaluate the apparent inconsistency between the results of its testing of the accuracy of the classification report and certain of the issuer's reclassification adjustments. Specifically, certain of the items that the Firm selected for testing and determined were accurately classified as general product types had been subject to reclassification adjustments by the issuer, and were instead included as specialized product types in the issuer's valuation of the customer-relationship intangible asset for this reporting unit. (AS 2502.26, .28, .31, and .36; AS 2810.03)

A.9. Issuer I

In this audit of an issuer in the telecommunication services industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer recognized a significant portion of its revenue from upfront fees that its customers paid to defray the issuer's costs of completing certain projects. The issuer initially deferred these upfront fees and then recognized revenue ratably over the customer-benefit period, which the issuer determined as the longer of the initial contractual term or the period over which the issuer's customer could reasonably be expected to benefit from the upfront fee. Determining the customer-benefit period required judgment in assessing the likelihood of customer contract renewals. The Firm's testing related to the period over which revenue was recognized was insufficient in the following respects –

- The Firm selected for testing a control that included a review of the contract terms and the customer-benefit period that the issuer determined for each project. The Firm failed to sufficiently test this control, as it failed to test the aspects of the control related to the control owner's assessment of the likelihood of customer contract renewals. (AS 2201.42 and .44)

- The Firm failed to perform sufficient substantive procedures to test the customer-benefit period for approximately half of the issuer's significant projects that the Firm selected for testing. The Firm read the customer master agreements for these projects and noted that the agreements included additional renewal options beyond the customer-benefit period. The Firm's procedures to evaluate the likelihood of additional renewals were limited to inquiry of management. (AS 2501.11)

A.10. Issuer J

In this audit of an issuer in the health care industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR. The issuer generated revenue at numerous locations. The Firm identified a risk of fraud for revenue related to the possible recording of fictitious or unsupported transactions. With respect to certain of the issuer's locations, the Firm's procedures related to revenue and accounts receivable consisted of (1) testing three entity-level controls and (2) comparing the financial results for each of these locations to prior periods' results and inquiring of management for any variances that exceeded the Firm's established level of materiality. The total revenue and accounts receivable at these locations were multiple times the Firm's established level of materiality and presented a reasonable possibility of material misstatement. The Firm's testing related to revenue and accounts receivable at these locations was insufficient in the following respects –

- The three entity-level controls consisted of two monthly comparisons of the financial results for each of the issuer's locations to prior periods' results and to the issuer's forecast for each location, and a quarterly business review of the consolidated financial results, forecast, capital spending, and other topics. The Firm failed to sufficiently test these controls, as it failed to evaluate the nature of the review procedures that the control owners performed, including how matters the control owners identified for follow-up were resolved. Further, the Firm failed to evaluate whether the third control, which considered results at a consolidated level, was designed to operate at a level of precision that would prevent or detect material misstatements in the issuer's financial statements. (AS 2201.42 and .44)

- The Firm failed to perform any substantive procedures to test the revenue and accounts receivable at these locations, as the Firm's comparison of each location's financial results to prior periods' results was not designed to detect potential misstatements that could be material. (AS 2301.08 and .36)

A.11. Issuer K

In this audit of an issuer in the financials industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as it failed to perform sufficient procedures related to the valuation of the issuer's investments. The issuer determined the fair value of the majority of its investments based on a valuation model that, for each investment, used the historical financial results of the investee company as a significant input. The financial results for the investee companies were annually audited by various other auditors. As part of its determination of the fair value, the issuer obtained these audited financial statements and made adjustments to account for the generally one month between the audit report date and the date as of which it was determining fair value. The Firm's procedures related to the historical financial results were insufficient, as follows –

- The Firm selected for testing two controls that consisted of (1) a review of a summary memorandum regarding the issuer's initial investment in an investee company and (2) a review of the monthly financial results for each investee company. Both of these controls included an aspect related to the issuer's evaluation of the reputation and competence of the auditors that audited the investee companies; however, the Firm failed to perform any procedures to test this aspect of either control. (AS 2201.42 and .44)

- The Firm failed to perform any procedures to determine whether the audit reports of the investee companies' auditors provided sufficient evidence about the investee companies' financial results. (AS 2503.28)

A.12. Issuer L

In this audit of an issuer in the consumer discretionary industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as it failed to perform sufficient procedures to test controls over revenue for one of the issuer's significant business units. Specifically –

- The issuer recognized revenue based on the shipment of products to its customers. The Firm identified a likely source of potential misstatement related to possible unauthorized or erroneous sales orders. The Firm, however, failed to identify and test any controls that addressed whether the products that were shipped were associated with a valid customer purchase order. (AS 2201.39)

- The issuer's sales order process included validating the prices associated with each customer purchase order before the order was processed. The Firm identified an automated application control ("matching control") that compared the price from the customer's purchase order to the price per the master price listing in the issuer's sales system. When prices did not match ("price exceptions"), the sales system prevented the order from being processed; these blocked orders were included on a system-generated report ("order-block report"). The issuer reviewed this order-block report and manually made any necessary pricing adjustments; orders with adjusted prices were included on a system-generated price-override report. The Firm selected for testing a control consisting of the issuer's review of the price-override report. The Firm failed to test controls that sufficiently addressed whether prices for processed sales were appropriate. Specifically, the Firm failed to –

  - Identify and test any controls over the inputs and changes to the master price listing; (AS 2201.39)

  - Test the aspect of the issuer's automated matching control related to blocking orders with price exceptions; (AS 2201.39)

  - Identify and test any controls over the accuracy of the order-block report that the issuer reviewed and over the determination of whether pricing adjustments were necessary; and (AS 2201.39)

  - Identify and test any controls over the completeness of the price-override report that the issuer reviewed. (AS 2201.39)

A.13. Issuer M

In this audit of an issuer in the consumer discretionary industry sector, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as it failed to perform sufficient procedures to test controls over revenue. Specifically –

- The issuer derived the majority of its revenue from retail sales; a significant portion of these sales represented cash sales. The Firm identified a likely source of potential misstatement that retail sales may be recorded at incorrect amounts in the issuer's point-of-sale system. For cash sales, the Firm selected for testing one control; this control consisted of a monthly reconciliation of cash balances from the issuer's bank accounts to the cash balances recorded in the general ledger for each retail store. This control, however, was not designed to address the accuracy of cash sales recorded in the point-of-sale system, and the Firm did not identify and test any other controls that did so. (AS 2201.39)

- For two other types of sales, the issuer recorded revenue when orders were shipped. The Firm identified a likely source of potential misstatement that sales may be recorded without a valid shipment of inventory. In response, the Firm selected for testing two controls over these types of sales. These controls consisted of (1) an automated control providing for the relief of inventory from the inventory-warehouse system at the appropriate quantity and cost upon shipment and (2) a monthly reconciliation of inventory balances between the issuer's sales-order system, inventory-warehouse system, and general ledger. These controls, however, were not designed to address whether sales recorded in the issuer's sales-order system related to shipments of inventory, and the Firm failed to identify and test any other controls that did so. (AS 2201.39)

B. Auditing Standards

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

Many audit deficiencies involve a lack of due professional care. Paragraphs .02, .05, and .06 of AS 1015, *Due Professional Care in the Performance of Work*, require the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AS 1015.07-.09, and paragraph .07 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS 2301.03, .05, and .08 require the auditor to design and implement audit responses that address the risks of material misstatement. Paragraph .04 of AS 1105, *Audit Evidence*, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of ICFR) and the quality of the audit evidence obtained. Appropriateness is the measure of the quality of audit evidence; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

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

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited. For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	Audits	Number of References per Audit
AS 1105, *Audit Evidence*	Issuer D	1
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	Issuer A Issuer B Issuer C Issuer D	4 4 2 1

PCAOB Auditing Standards	Audits	Number of References per Audit
	Issuer E Issuer F Issuer I Issuer J Issuer K Issuer L Issuer M	1 1 1 1 1 5 2
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	Issuer A Issuer B Issuer C Issuer D Issuer E Issuer G Issuer J	2 5 1 1 1 1 1
AS 2315, *Audit Sampling*	Issuer B Issuer C Issuer D Issuer E Issuer G	2 1 1 1 1
AS 2501, *Auditing Accounting Estimates*	Issuer A Issuer I	3 1
AS 2502, *Auditing Fair Value Measurements and Disclosures*	Issuer A Issuer B Issuer F Issuer H	1 1 2 4
AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*	Issuer K	1
AS 2605, *Consideration of the Internal Audit Function*	Issuer C	2

PCAOB Auditing Standards	Audits	Number of References per Audit
AS 2810, *Evaluating Audit Results*	Issuer A Issuer H	1 2

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to the deficiencies included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed. The following standards were cited for only one issuer and are excluded from the table: AS 1105, AS 2503, and AS 2605.[5]

	AS 2201	AS 2301	AS 2315	AS 2501	AS 2502	AS 2810
Business combinations		B	B		B, H	H
Impairment of goodwill or other long-lived assets	A, F	A		A	A, F	A
Inventory and related reserves	A	A		A		
Investment securities	K					
Loans, including ALL	B	B	B			

[5] The AS 1105 deficiency for issuer D and the AS 2605 deficiency for issuer C related to revenue. The AS 2503 deficiency for issuer K related to investment securities.

	AS 2201	AS 2301	AS 2315	AS 2501	AS 2502	AS 2810
Revenue, including accounts receivable and deferred revenue	C, D, E, I, J, L, M	C, D, E, G, J	C, D, E, G	I		

B.3. Audit Deficiencies by Industry

The table below lists the industries[6] of the issuers for which audit deficiencies were discussed in Part I.A of this report and cross references the issuers to the specific auditing standards related to the deficiencies.

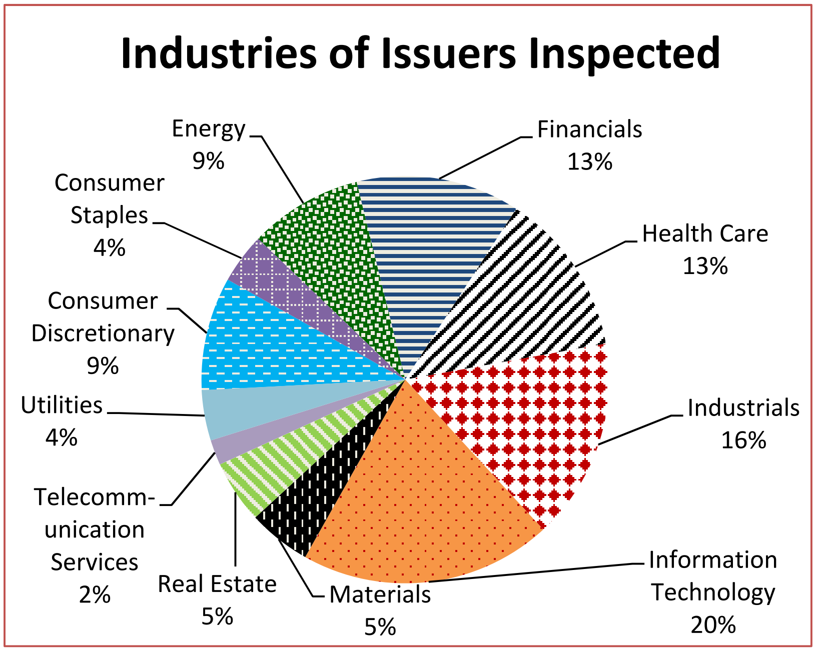
	AS 1105	AS 2201	AS 2301	AS 2315	AS 2501	AS 2502	AS 2503	AS 2605	AS 2810
Consumer Discretionary		L, M							
Energy		A	A		A	A			A
Financials		B, K	B	B		B	K		
Health Care		F, J	J			F			
Industrials	D	D, E	D, E, G	D, E, G		H			H
Materials		C	C	C				C	
Telecommunication Services		I			I				

[6] The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

C. Data Related to the Issuer Audits Selected for Inspection[7]

C.1. Industries of Issuers Inspected

The chart below categorizes the 55 issuers whose audits were inspected in 2017, based on the issuer's industry.[8]



Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	5	9%
Consumer Staples	2	4%
Energy	5	9%
Financials	7	13%
Health Care	7	13%
Industrials	9	16%
Information Technology	11	20%
Materials	3	5%
Real Estate	3	5%
Telecommunication Services	1	2%
Utilities	2	4%
Total	55	100%

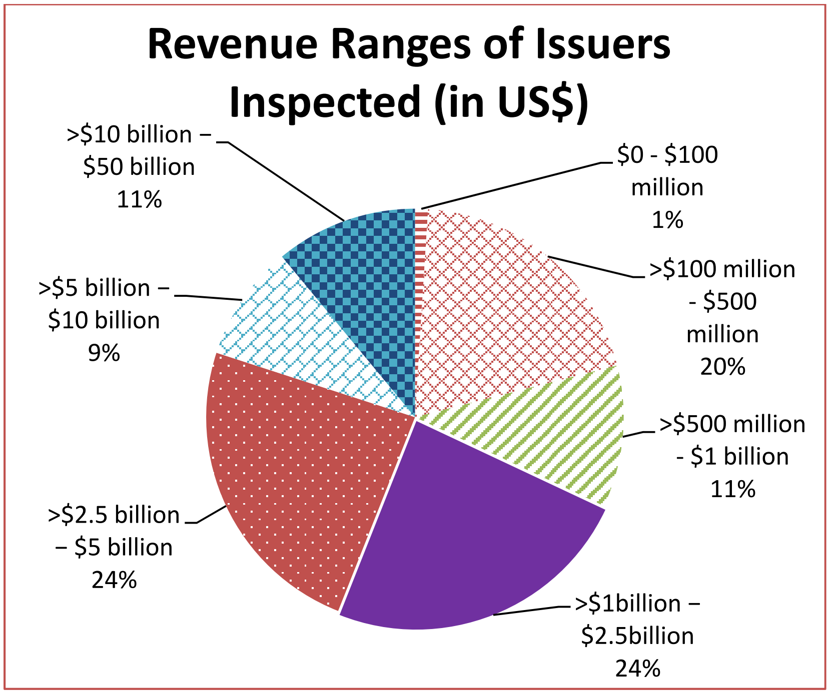
---

7 Where the audit work inspected related to an engagement in which the Firm played a role but was not the principal auditor, the industry and the revenue included in the tables and charts in this section are those of the entity for which an audit report was issued by the primary auditor. As discussed above, the inspection process included reviews of portions of 54 selected issuer audits completed by the Firm and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor.

8 See Footnote 6 for additional information on how industry sectors were classified.

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 55 issuers whose audits were inspected in 2017.[9] This presentation of revenue data is intended to provide information related to the size of issuers whose audits were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.



Revenue (in US$)	Number of Audits Inspected	Percentage
<100 million	1	1%
100-500 million	11	20%
500 million -1 billion	6	11%
1-2.5 billion	13	24%
2.5-5 billion	13	24%
5-10 billion	5	9%
10-50 billion	6	11%
Total	55	100%

9 The revenue amounts reflected in the chart are for the issuer's fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

This section provides a brief description of the procedures that are often performed in annual inspections of auditing firms.

D.1. Reviews of Audit Work

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. For each specific portion of the audit that is selected, the inspection team reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and review of any additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report. Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.[10]

Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[11] as well as a firm's failure to perform,

---

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

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

or to perform sufficiently, certain necessary risk assessment procedures, tests of controls, and substantive audit procedures.

In reaching its conclusions about whether a deficiency exists, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS 1215, *Audit Documentation,* provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

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

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

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

---

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.

an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of the firm's role in an audit may indicate a defect or potential defect in a firm's quality control system.[12] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the nature, significance, and frequency of deficiencies;[13] related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the 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.

---

[12] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

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

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

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a commitment to audit quality. To assess this area, the inspection team may interview firm personnel, including firm leadership, and review significant management reports, communications, and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.2.b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area are designed to focus on (1) whether the firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks of material misstatement identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are designed to identify and assess the processes the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design and operation of the firm's internal inspection program, and may compare the results of its review to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

D.2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I

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.[14]

[14] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act 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.

February 15, 2019

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

Re: Response to Draft Report on the 2017 Inspection of PricewaterhouseCoopers LLP

Dear Mr. Botic:

On behalf of PricewaterhouseCoopers LLP (the "Firm"), we are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2017 Inspection of our Firm's 2016 audits (the "Report"). We recognize the inspection process provides a valuable opportunity to improve the quality of our audits. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate and independent audit reports.

Bringing value to the capital markets by consistently performing high-quality audits remains our top priority, including addressing the matters raised in the Report in a thorough and thoughtful way. We have evaluated each of the observations set forth in *Part I - Inspection Procedures and Certain Observations* of the Report and have taken appropriate actions under both PCAOB standards and our policies. Our evaluation included those steps we considered necessary to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date,* and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* and AS No. 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

We appreciate that many of our stakeholders will review the PCAOB's report and our response and have therefore included a link to our 2018 audit quality report to encourage our stakeholders to learn more about the tangible steps we are taking to maintain and improve audit quality. (http://www.pwc.com/us/auditquality). These steps include significant investments in our people and tech-enabling our audits through new technology applications and initiatives to increase the technology and data analytics skills of our people, as we believe investing in our people and technology are critical to driving continued improvements in audit quality.

We look forward to continuing our dialogue with the PCAOB and would be pleased to discuss any aspects of this response or any other questions you may have.

Sincerely,

Tim Ryan
US Chairman and Senior Partner
PricewaterhouseCoopers LLP

Maria C. Moats
US Assurance Leader
PricewaterhouseCoopers 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, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

AS 1105, ***Audit Evidence***		
SUFFICIENT APPROPRIATE AUDIT EVIDENCE		
Using Information Produced by the Company		
AS 1105.10	When using information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:[3] ▪ Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and ▪ Evaluate whether the information is sufficiently precise and detailed for purposes of the audit.	Issuer D
Footnote to AS 1105.10 [3] When using the work of a specialist engaged or employed by management, *see* AS 1210, *Using the Work of a Specialist.* When using information produced by a service organization or a service auditor's report as audit evidence, *see* AS 2601, *Consideration of an Entity's Use of a Service Organization*, and for integrated audits, *see* AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.		

AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***		
Selecting Controls to Test		
AS 2201.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, B, C, D, E, L, and M

TESTING CONTROLS		
Testing Design Effectiveness		
AS 2201.42	The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements. Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.	Issuers A, B, F, I, J, and K
Testing Operating Effectiveness		
AS 2201.44	The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively. Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.	Issuers A, B, F, I, J, and K
APPENDIX B - Special Topics		
BENCHMARKING OF AUTOMATED CONTROLS		
AS 2201.B29	If general controls over program changes, access to programs, and computer operations are effective and continue to be tested, and if the auditor verifies that the automated application control has not changed since the auditor established a baseline (*i.e.*, last tested the application control), the auditor may conclude that the	Issuer C

	automated application control continues to be effective without repeating the prior year's specific tests of the operation of the automated application control. The nature and extent of the evidence that the auditor should obtain to verify that the control has not changed may vary depending on the circumstances, including depending on the strength of the company's program change controls.	

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
RESPONSES INVOLVING THE NATURE, TIMING, AND EXTENT OF AUDIT PROCEDURES		
AS 2301.08	The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.	Issuers A, B, and J
TESTING CONTROLS		
Testing Controls in an Audit of Financial Statements		
AS 2301.16	*Controls to be Tested.* If the auditor plans to assess control risk at less than the maximum by relying on controls,[12] and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire period of reliance.[13] However, the auditor is not required to assess control risk at less than the maximum for all relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	Issuers C, D, and E
Footnotes to AS 2301.16 12 Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures. 13 Terms defined in Appendix A, Definitions, are set in boldface type the first time they appear.		
AS 2301.18	*Evidence about the Effectiveness of Controls in the Audit of Financial Statements.* In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree	Issuers C, D, and E

AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*		
	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.	
SUBSTANTIVE PROCEDURES		
AS 2301.36	The auditor should perform substantive procedures for each relevant assertion of each significant account and disclosure, regardless of the assessed level of control risk.	Issuer J
AS 2301.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	Issuers C, D, E, and G
Extent of Substantive Procedures		
AS 2301.42	The more extensively a substantive procedure is performed, the greater the evidence obtained from the procedure. The necessary extent of a substantive audit procedure depends on the materiality of the account or disclosure, the assessed risk of material misstatement, and the necessary degree of assurance from the procedure. However, increasing the extent of an audit procedure cannot adequately address an assessed risk of material misstatement unless the evidence to be obtained from the procedure is reliable and relevant.	Issuers B and G

AS 2315, *Audit Sampling*		
SAMPLING IN SUBSTANTIVE TESTS OF DETAILS		
Planning Samples		
AS 2315.16	When planning a particular sample for a substantive test of details, the auditor should consider ▪ The relationship of the sample to the relevant audit objective. ▪ Tolerable misstatement. (See paragraphs .18-.18A.) ▪ The auditor's allowable risk of incorrect acceptance. ▪ Characteristics of the population, that is, the items comprising the account balance or class of transactions of interest.	Issuer B
AS 2315.18	Evaluation in monetary terms of the results of a sample for a substantive test of details contributes directly to the auditor's purpose, since such an evaluation can be related to his or her judgment of the monetary amount of misstatements that would be material. When planning a sample for a substantive test of details, the auditor should consider how much monetary misstatement in the related account balance or class of transactions may exist, in combination with other misstatements, without causing the financial statements to be materially misstated. This maximum monetary misstatement for the account balance or class of transactions is called *tolerable misstatement*.	Issuer B
AS 2315.18A	Paragraphs .08-.09 of AS 2105, *Consideration of Materiality in Planning and Performing an Audit*, describe the auditor's responsibilities for determining tolerable misstatement at the account or disclosure level. When the population to be sampled constitutes a portion of an account balance or transaction class, the auditor should determine tolerable misstatement for the population to be sampled for purposes of designing the sampling plan. Tolerable misstatement for the population to be sampled ordinarily should be less than tolerable misstatement for the account balance or transaction class to allow for the possibility that misstatement in the portion of the account or transaction class not subject to audit sampling, individually or in combination with other misstatements, would cause the financial statements to be materially misstated.	Issuer B
AS 2315.19	After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable	Issuers B, C, D, E, and G

AS 2315, *Audit Sampling*		
	level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.3 Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.	
AS 2315.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuers B, C, D, E, and G
AS 2315.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample	Issuers B, C, D, E, and G

AS 2501, *Auditing Accounting Estimates*		
EVALUATING REASONABLENESS		
AS 2501.11	Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach:	Issuers A and I

AS 2501, *Auditing Accounting Estimates*		
	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 significant to the assumptions. g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions. h. Consider using the work of a specialist regarding certain assumptions (AS 1210, *Using the Work of a Specialist*). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	

AS 2502, *Auditing Fair Value Measurements and Disclosures*		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AS 2502.26	The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value	Issuers A, F, and H

AS 2502, *Auditing Fair Value Measurements and Disclosures*		
	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.	
AS 2502.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers A, F, and H
AS 2502.31	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.	Issuers A and H
AS 2502.36	To be reasonable, the assumptions on which the fair value measurements are based (for example, the discount rate used in calculating the present value of future cash flows),[5] individually and taken as a whole, need to be realistic and consistent with: a. The general economic environment, the economic environment of the specific industry, and the entity's economic circumstances; b. Existing market information; c. The plans of the entity, including what management expects will be the outcome of specific objectives and strategies; d. Assumptions made in prior periods, if appropriate; e. Past experience of, or previous conditions experienced by, the entity to the extent currently applicable; f. Other matters relating to the financial statements, for example, assumptions used by management in accounting estimates for financial statement accounts other than those relating to fair value measurements and disclosures; and g. The risk associated with cash flows, if applicable, including the potential variability in the amount	Issuers A and H

AS 2502, *Auditing Fair Value Measurements and Disclosures*		
	and timing of the cash flows and the related effect on the discount rate. Where assumptions are reflective of management's intent and ability to carry out specific courses of action, the auditor considers whether they are consistent with the entity's plans and past experience.	
Footnote to AS 2502.36 [5] The auditor also should consider requirements of GAAP that may influence the selection of assumptions (*see* FASB Concepts Statement No. 7).		
AS 2502.39	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.	Issuer B

AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*		
DESIGNING SUBSTANTIVE PROCEDURES BASED ON RISK ASSESSMENTS		
Financial Statement Assertions		
Valuation		
AS 2503.28	Valuation Based on an Investee's Financial Results. For valuations based on an investee's financial results, including but not limited to the equity method of accounting, the auditor should obtain sufficient evidence in support of the investee's financial results. The auditor should read available financial statements of the investee and the accompanying audit report, if any. Financial statements of the investee that have been audited by an	Issuer K

AS 2503, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities*		
	auditor whose report is satisfactory, for this purpose,[14] to the investor's auditor may constitute sufficient evidential matter.	
Footnote to AS 2503.28 [14] In determining whether the report of another auditor is satisfactory for this purpose, the auditor may consider performing procedures such as making inquiries as to the professional reputation and standing of the other auditor, visiting the other auditor and discussing the audit procedures followed and the results thereof, and reviewing the audit program and/or working papers of the other auditor.		

AS 2605, *Consideration of the Internal Audit Function*		
ASSESSING THE COMPETENCE AND OBJECTIVITY OF THE INTERNAL AUDITORS		
Objectivity of the Internal Auditors		
AS 2605.10	When assessing the internal auditors' objectivity, the auditor should obtain or update information from prior years about such factors as— ▪ The organizational status of the internal auditor responsible for the internal audit function, including— o Whether the internal auditor reports to an officer of sufficient status to ensure broad audit coverage and adequate consideration of, and action on, the findings and recommendations of the internal auditors. o Whether the internal auditor has direct access and reports regularly to the board of directors, the audit committee, or the owner-manager. o Whether the board of directors, the audit committee, or the owner-manager oversees employment decisions related to the internal auditor. ▪ Policies to maintain internal auditors' objectivity about the areas audited, including— o Policies prohibiting internal auditors from auditing areas where relatives are employed in important or audit-sensitive positions.	Issuer C

AS 2605, *Consideration of the Internal Audit Function*		
	o Policies prohibiting internal auditors from auditing areas where they were recently assigned or are scheduled to be assigned on completion of responsibilities in the internal audit function.	
AS 2605.11	In assessing competence and objectivity, the auditor usually considers information obtained from previous experience with the internal audit function, from discussions with management personnel, and from a recent external quality review, if performed, of the internal audit function's activities. The auditor may also use professional internal auditing standards[4] as criteria in making the assessment. The auditor also considers the need to test the effectiveness of the factors described in paragraphs .09 and .10. The extent of such testing will vary in light of the intended effect of the internal auditors' work on the audit. If the auditor determines that the internal auditors are sufficiently competent and objective, the auditor should then consider how the internal auditors' work may affect the audit.	Issuer C
<u>Footnote to AS 2605.11</u> [4] Standards have been developed for the professional practice of internal auditing by The Institute of Internal Auditors and the General Accounting Office. These standards are meant to (a) impart an understanding of the role and responsibilities of internal auditing to all levels of management, boards of directors, public bodies, external auditors, and related professional organizations; (b) permit measurement of internal auditing performance; and (c) improve the practice of internal auditing.		
EVALUATING AND TESTING THE EFFECTIVENESS OF INTENRAL AUDITORS' WORK		
AS 2605.24	The auditor should perform procedures to evaluate the quality and effectiveness of the internal auditors' work, as described in paragraphs .12 through .17, that significantly affects the nature, timing, and extent of the auditor's procedures. The nature and extent of the procedures the auditor should perform when making this evaluation are a matter of judgment depending on the extent of the effect of the internal auditors' work on the auditor's procedures for significant account balances or classes of transactions.	Issuer C

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