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Report on

2017 Inspection of Dannible & McKee, LLP
(Headquartered in Syracuse, New York)

Issued by the

Public Company Accounting Oversight Board

July 27, 2017

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. 104-2017-143

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PCAOB
Public Company Accounting Oversight Board

2017 INSPECTION OF DANNIBLE & MCKEE, LLP

Preface

In 2017, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Dannible & McKee, LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

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

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

Note on this report's citations to auditing standards: On March 31, 2015, the PCAOB adopted a reorganization of its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015). The reorganization became effective as of December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

PROFILE OF THE FIRM[1]

Offices	1 (Syracuse, New York)
Ownership structure	Limited liability partnership
Partners / professional staff[2]	15 / 47
Issuer audit clients	2
Lead partners on issuer audit work[3]	2

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

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

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

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from January 23, 2017 to January 27, 2017.[4]

A. Review of Audit Engagements

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

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

One of the deficiencies identified was of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable

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

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

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

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[5]

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

A.1. Issuer A

the failure to perform sufficient procedures to test the occurrence and valuation of revenue, including the inadequate performance of substantive analytical procedures (AS 2301.08 and .13; AS 2305.16 and .21).

[5] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an inspection report, about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

B. Auditing Standards

The deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for the deficiency are those that most directly relate to the deficiency. The deficiency also relates, 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 sets 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, and paragraph .04 of AS 1105, *Audit Evidence*, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

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

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

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

PCAOB Auditing Standards	Issuer
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	A
AS 2305, *Substantive Analytical Procedures*	A

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

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

C.1. Reviews of Audit Work

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

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[6] as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection may not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

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

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

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

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

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

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

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

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

firm's quality control system.[8] 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;[9] related firm methodology, guidance, and practices; and possible root causes.

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

END OF PART I

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

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

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

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[10]

[10] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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June 2, 2017

Private & Confidential

Ms. Helen A. Munter, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006

Dear Ms. Munter:

We are providing our response to the Public Company Accounting Oversight Board (PCAOB) regarding its Draft Report of Inspection (the "Report"), dated May 3, 2017, on the 2017 inspection of Dannible & McKee, LLP (the "Firm").

As one of the only registered non-Big Four firms in Central New York, with seventy-five people, our ultimate objective is to insure our audits are of the highest quality. We believe the 2017 inspection by the PCAOB assisted us in identifying areas where we can improve our performance, and we will take action to address the matters discussed in the Report.

With respect to the Board's comments in Part I of the Report, we have the following response:

The Report discloses one auditing issue, identified by the Inspection Team, relating to the failure to perform sufficient procedures to test the occurrence and valuation of revenue, including the inadequate performance of substantive analytical procedures. We strongly disagree with this preliminary finding for the reasons set out below.

FACTS AND CIRCUMSTANCES

The Firm believes it applied adequate and appropriate substantive procedures in accordance with AS 2301 and AS 2305, which included analytical procedures sufficiently within the latitude permitted within the Standards. Specifically, the Firm believes that detailed substantive testing performed in the accounts receivable section of the audit workpapers, combined with the analytical procedures and corroboration with management of our findings, represented an adequate degree of overall testing to respond to the assessed audit risk associated with this client engagement. Our risk assessment defined improper revenue recognition as both a significant risk and a fraud risk, requiring detailed substantive audit procedures to respond to such risks as defined on our risk assessment workpaper.

The Firm believes that because of detailed testing in accounts receivable and the particularities of the composition and consistency of revenue as explained below, that detailed transaction testing of revenue for the entire year was considered excessive and unlikely to produce further reduction of risk of material misstatement than the disaggregation analytical testing and ratio analysis already being performed. The testing of revenue transactions from the accounts receivable area and the significant management assertions relating to these material aspects of revenue variation were corroborated and verified against contracts and evaluated for completeness.

The Company is a manufacturer that assembles and ships merchandise. The revenue recognition model is not complex. Revenue is recognized upon shipment of goods to the customer. One governmental customer has historically represented a significant percentage of revenue, as explained below. This customer has returned 100% of accounts receivable confirmations, confirmed correct in the prior fiscal year, and confirmed correct all but one during the current year, which involved an inquiry on a return for a repair which was in process at fiscal year-end and was ultimately paid in full subsequent to year-end as confirmed.

Due to the historical concentration of revenue amongst few customers and the high degree of success in positive verification of the existence and valuation of revenue transactions resulting therefrom, the Firm believes that our robust substantive procedures surrounding the existence and occurrence of these transactions upon their inception within the accounts receivable system is adequate to reveal the existence of improperly recognized revenue, including risk of material misstatement for all related assertions.

Among the Firm's observations and substantive procedures performed to address these risks were the following:

- The nature of the Company's revenue base is that a small number of customers represent a large portion of revenue and accounts receivable. Eleven customers, or 15% of customer transactions in accounts receivable at year-end, represent 77% of the balance.
- This reinforces, and is consistent with, our continuing observations of the Company's composition of revenue through our review of the disaggregation each quarter, where large concentrations appear related to selected governmental contracts amongst the same parties appearing in accounts receivable confirmation selections.
- When we examined this year-end's disaggregation, we again found a customer, which was specifically set out in the revenue disaggregation disclosures as a significant customer, with 28% of revenue for the fiscal year and also represented 63% of the individually significant revenue transactions outstanding in accounts receivable. This is consistent with the results of the findings from our audit testing in the prior fiscal year, in which this customer represented 33% of revenue, and also, therefore, assisted us in understanding the source of

revenue decline from the prior fiscal year in the revenue disaggregation as anticipated in our revenue expectations.

- During the course of our procedures performed on the evaluation of the Company's disaggregation of revenue, we corroborated this activity noted in the year-end audit file in that we reviewed customer contracts both in the prior and current quarter, noting terms are consistent with management's discussion.

- We performed substantive testing to evaluate the impact on both accounts receivable and revenue of the most significant customers included in each account caption during the fiscal year.

- We performed sales cutoff testing to identify any overstatement of the year's revenue, which involved reviewing detailed shipment and invoicing documentation, both before and after year-end.

- We reviewed all general journal activity for the presence of any unusual activity occurring in the revenue accounts from manually introduced general journal entries. In connection with this testing, we also conducted completeness testing. No fraudulent journal entries or evidence of management's override of controls were identified through this testing.

CONCLUSION

In conclusion, the Firm believes that given the factors above, and as permitted within the interpretation of Presumptively Mandatory Responsibility, as supplemented by the available guidance on the impact of the auditor's judgement as it relates to the materiality of the account or disclosure, the assessed risk of material misstatement and the necessary degree of assurance from the procedures, as explained at AS section 2301.42, that there was justification for the Firm not including testing of detail transactions as one of our substantive procedures to address the risk of material misstatement of revenue in the audit for the fiscal year ended September 30, 2016. Within our interpretation of these Standards, we also believe our expectations were precise enough to provide the desired level of assurance that differences that could be potential material misstatements would be identified for investigation, and that the responses were adequately corroborated in performing our substantive analytical procedures, and satisfied our testing of the completeness assertion.

SUBSEQUENT PROCEDURES

In response to the inspection process, we will perform the following additional procedures:

The Firm will apply the following procedures retroactively to address the identified deficiencies in the Firm's audit of the fiscal year, which was the subject of the Report (the fiscal year October 1, 2015, through September 30, 2016):

1. The Firm will include substantive testing of the issuer's entire fiscal year revenue, rather than only that represented by the portion remaining in accounts receivable at fiscal year-end.

    - Completeness of the entire fiscal year revenue population will be verified by comparison and reconciliation of the value of the revenue detail by invoices extracted from the issuer's accounting records with the revenue value reported on the issuer's financial statements.

2. We will make a selection of individual revenue transactions (revenue invoices) via established non-statistical sampling techniques, with the application of substantive procedures such as:

    - Verification of subsequent liquidation having occurred for the revenue invoice selected for testing;

    - Verification of shipment of the related invoiced products to the customer;

    - Verification of recording of the revenue related to the selected invoice in the proper accounting period based upon the issuer's revenue recognition policy.

3. The Firm will discuss, with the appropriate level of management of the issuer, the explanations provided for identified differences deemed material, in accordance with the materiality guidelines as documented in the Firm's risk assessment. The following procedures will be performed for all identified differences deemed within the scope of materiality:

    - Reconfirm, through discussion with the appropriate level of issuer's management, management's reasons for and explanation of identified differences;

    - Obtain evidentiary documentation corroborating management's explanations and assertions and document this evidence and corroboration in the audit workpapers;

    - Resolve any differences found between the results of our examination of the evidentiary documentation and management's earlier explanations and assertions, and;

- Conclude as to whether the evidence and corroboration provides the necessary degree of assurance as to the existence and occurrence of the issuer's revenue.

4. The Firm will perform the following substantive procedures to test the accuracy and completeness of disaggregated net sales by product group:

    - Obtain the issuer's detail of net sales by disaggregated product group;
    - Reconcile the total of the detail obtained above to the revenue value reported on the issuer's financial statements;
    - Verify the accumulation of key industry-specific customer disclosures set forth in the net sales disaggregation by product group by obtaining and reviewing a sample selection of customer invoices and shipping documents and concluding as to the appropriateness of their product group classification;
    - Resolve any differences found between the results of our examination of the evidentiary documentation and management's product group classification, and;
    - Conclude as to whether the evidence and substantive procedures provide the necessary degree of assurance as to the accuracy and completeness of the disaggregated net sales by product group.

Other than the one issue noted above, of which we are aware as discussed, no significant accounting or disclosure issues were identified by the PCAOB.

The above procedures will be utilized in future audits of the issuer.

We appreciate the opportunity to provide our response to this Report and would welcome discussion of any matters that require further explanation.

Respectfully yours.

Dannible & McKee, LLP

DANNIBLE & McKEE LLP

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I.A

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

AS 2305, *Substantive Analytical Procedures*		
ANALYTICAL PROCEDURES USED AS SUBSTANTIVE TESTS		
Availability and Reliability of Data		
AS 2305.16	Before using the results obtained from substantive analytical procedures, the auditor should either test the design and operating effectiveness of controls over financial information used in the substantive analytical procedures or perform other procedures to support the	Issuer A

AS 2305, ***Substantive Analytical Procedures***		
	completeness and accuracy of the underlying information. The auditor obtains assurance from analytical procedures based upon the consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the analytical procedure. The auditor should assess the reliability of the data by considering the source of the data and the conditions under which it was gathered, as well as other knowledge the auditor may have about the data. The following factors influence the auditor's consideration of the reliability of data for purposes of achieving audit objectives: ▪ Whether the data was obtained from independent sources outside the entity or from sources within the entity ▪ Whether sources within the entity were independent of those who are responsible for the amount being audited ▪ Whether the data was developed under a reliable system with adequate controls ▪ Whether the data was subjected to audit testing in the current or prior year ▪ Whether the expectations were developed using data from a variety of sources	
Investigation and Evaluation of Significant Differences		
AS 2305.21	The auditor should evaluate significant unexpected differences. Reconsidering the methods and factors used in developing the expectation and inquiry of management may assist the auditor in this regard. Management responses, however, should ordinarily be corroborated with other evidential matter. In those cases when an explanation for the difference cannot be obtained, the auditor should obtain sufficient evidence about the assertion by performing other audit procedures to satisfy himself as to whether the difference is a misstatement. In designing such other procedures, the auditor should consider that unexplained differences may indicate an increased risk of material misstatement. (See AS 2810.)	Issuer A