

Report on
2017 Inspection of Michael T. Studer CPA P.C.
(Headquartered in Freeport, New York)

Issued by the
Public Company Accounting Oversight Board

November 1, 2018

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**

2017 INSPECTION OF MICHAEL T. STUDER CPA P.C.

Preface

In 2017, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Michael T. Studer CPA P.C. ("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 December 31, 2016. Citations in this report reference the reorganized PCAOB auditing standards.

PROFILE OF THE FIRM¹

Offices	1 (Freeport, New York)
Ownership structure	Professional corporation
Partners / professional staff ²	1 / 2
Issuer audit clients	17
Lead partners on issuer audit work ³	1

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 December 4, 2017 to December 11, 2017.⁴

A. Review of Audit Engagements

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

Certain deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in conformity with the applicable financial reporting framework. In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

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.

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. As indicated below, however, in one instance, the inspection team identified a failure by the Firm to identify and address appropriately a departure from Generally Accepted Accounting Principles ("GAAP") that appeared to the inspection team to be material.

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 deficiencies that reached this level of significance are described below—

A.1. Issuer A

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that appeared to the inspection team to be material, which related to share-based compensation (AS 2810.30); and
- (2) the failure to perform sufficient procedures to test the valuation of share-based compensation (AS 2502.03 and .15).

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.

A.2. Issuer B

(1) the failure to perform sufficient procedures to test the valuation of revenue (AS 2501.04 and .11); and

(2) the failure to perform sufficient procedures to test the valuation of a related party transaction (AS 2410.11).

A.3. Issuer C

(1) the failure to perform sufficient procedures to evaluate the accounting for, and test the valuation of, long-lived assets (AS 2810.30 and .31; AS 2501.04); and

(2) the failure to perform sufficient procedures to evaluate the issuer's ability to continue as a going concern and the corresponding failure to evaluate related disclosures (AS 2415.06-.08 and .11; AS 2810.31).

B. Auditing Standards

Each 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 each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. 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) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

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

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

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

PCAOB Auditing Standards	Issuers
AS 2410, <i>Related Parties</i>	B
AS 2415, <i>Consideration of an Entity's Ability to Continue as a Going Concern</i>	C
AS 2501, <i>Auditing Accounting Estimates</i>	B and C
AS 2502, <i>Auditing Fair Value Measurements and Disclosures</i>	A
AS 2810, <i>Evaluating Audit Results</i>	A and C

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.

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.

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.

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

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.

comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

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

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.

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

* * * *

B. Issues Related to Quality Controls

A firm's system of quality control should provide reasonable assurance of compliance with applicable professional standards and regulatory requirements with respect to its audit practice (QC 20.04 and .17). On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A (and summarized in Part I.A) and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects¹⁰ –

B.1. Due Professional Care

As discussed above, in the three audits reviewed, the inspection team reported identifying several significant audit deficiencies. With respect to each deficiency, based on review of the work papers and discussions with the engagement personnel, it appeared to the inspection team that the deficiency was attributable, at least in part, to the engagement personnel having approached that aspect of the audit without due professional care. This information provides cause for concern about whether the Firm's engagement personnel will perform all aspects of their work on issuer audits with due professional care. [Issuers A, B, and C]

B.2. Communications with Audit Committees Related to the Conduct of the Audit

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with AS 1301, *Communications with Audit Committees*. Specifically, in the three audits reviewed, the audit documentation did not demonstrate, and there was no persuasive other evidence, that the Firm's communications with the audit committees, or equivalent, had included

¹⁰ This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but * * * * [have been] taken into account by the Board during its assessment of whether the Firm has satisfactorily addressed the quality control criticisms or defects within the twelve months after the issuance of this report.

discussion of * * * * significant risks identified during the Firm's risk assessment procedures. It appeared to the inspection team that this deficiency was attributable, at least in part, to the engagement personnel having approached this aspect of the audit without due professional care. This information provides cause for concern regarding the Firm's application of due professional care with respect to having and documenting the required communications with audit committees. [Issuers A, B, and C]

B.3. Engagement Quality Review

In light of certain audit performance deficiencies described in Part II.A (and summarized in Part I.A), questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with AS 1220, *Engagement Quality Review*. An engagement quality review performed with due professional care in compliance with AS 1220 should have detected, and resulted in the Firm addressing, the deficiencies described in Part II.A, related to (1) the testing of share-based compensation [Issuer A], the testing of revenue [Issuer B], and the testing of the valuation of long-lived assets [Issuer C], which were in areas in which the engagement team had identified a significant risk; and (2) evaluating an entity's ability to continue as a going concern and related financial statement disclosures, which was apparent from the review of the financial statements [Issuer C].

B.4. PCAOB Standards and Rules

The table below lists the specific PCAOB standards and rules that are primarily related to the descriptions of defects in, or criticisms of, the Firm's system of quality control included in this Part of the report.¹¹

PCAOB Standards / Rules
AS 1015, <i>Due Professional Care in the Performance of Work</i>
AS 1220, <i>Engagement Quality Review</i>
AS 1301, <i>Communications with Audit Committees</i>
QC 20, <i>System of Quality Control for a CPA Firm's Accounting and Auditing Practice</i>

* * * *

¹¹ This table does not necessarily include reference to every standard or rule that may have been related to the criticisms or potential defects that are included in Part II.

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 and that response has received careful consideration. 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.¹²

¹² The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

MICHAEL T. STUDER CPA P.C.
111 West Sunrise Highway, Second Floor East
Freeport, N.Y. 11520
Phone: (516) 378-1000
Fax: (516) 546-6220

September 7, 2018

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

Re: Response to Part IA (Review of Audit Engagements) of the Draft Report of Inspection dated August 8, 2018

Dear Mr. Botic:

This letter responds to the comments contained in Part IA (Review of Audit Engagements) of the Draft Report of Inspection dated August 8, 2018.

For your convenience, we have included comments in italics before each of the Firm's responses.

Issuer A

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that appeared to the inspection team to be material, which related to share-based compensation (AS 2810.30); and*
- (2) the failure to perform sufficient procedures to test the valuation of share-based compensation (AS 2502.03 and .15).*

Response:

- (1) The Executive Agreement dated January 4, 2016 was not solely between the issuer and its new CEO (i.e., Matthew Rhoden). Rather, it was between the issuer, Matthew Rhoden (who was well known in marijuana industry circles), and Rene Hamouth, Chairman of the Board of Directors and principal stockholder of the issuer. This agreement, which is less than 2 pages, resembles a stockholders' agreement more than an employment agreement. The agreement provided for no cash compensation to be paid to Rhoden. The agreement provided for the immediate issuance to Rhoden of such number of shares of common stock then owned by Hamouth (i.e., 17,339,889 shares), a voting agreement between Rhoden and Hamouth, and a right of first refusal grant to Rhoden and Hamouth to purchase each other's shares prior to a sale of such shares to a third party. The agreement contained no vesting provisions relating to the 17,339,889 shares of common stock issued to Rhoden and no restrictions on Rhoden relating to the sale of any of the 17,339,889 shares issued to him. The agreement provided that the Board of Directors of the issuer could terminate Rhoden's employment at any time without cause and without any additional compensation due Rhoden. The agreement contained no non-compete provisions or other limitations on Rhoden. For the above reasons, the issuer's full expensing of the \$866,994 fair value of the 17,339,889 shares in the three months ended March 31, 2016 rather than amortization of the \$866,994 over five years appears proper and reasonable.

- (2) Section 4(a)(2) of the Securities and Exchange Act of 1933 (the “ACT”) permits an issuer to sell securities in a “private placement” without registration under the ACT. A holder of securities who wishes to resell them privately under Section 4(a)(1) must sell them in a transaction that is sufficiently “private” to avoid being considered an underwriter, which under Section 4(a)(2) would preclude such a sale without registration under the ACT. There are, of course, several considerations that apply for a resale to be private. It is the Firm’s understanding that Section 4(a)(i) would have made it possible for Mr. Rhoden to sell his 17,339,889 restricted shares at any time in a private placement with one or a limited number of sophisticated third party investors provided that the right of first refusal provision was adhered to by him.

The only trades in Issuer A’s common stock in 2016 were 202 shares on December 13, 2016 and 3,000 shares on December 28, 2016. Also, there were no issuer sales of common stock from November 9, 2013 (date of change in control) to September 1, 2016. A stock grant of 19,600,000 shares of common stock issued to Harpreet Sangha on November 19, 2013 in a transaction similar to the Rhoden stock grant of 17,339,889 shares on February 25, 2016 was also valued at \$0.05 per share.

Based on the terms of the Executive Agreement as detailed above, the nature of the services to be provided by Rhoden to the issuer at the February 25, 2016 issuance date of the 17,339,889 shares was unclear. It was also unclear what would be the extent of time and efforts that would be required by Rhoden to provide such services. Thus, the issuer was unable to determine the cost of such services and rather used a \$0.05 per share price to determine the fair value of the transaction.

- (1) and (2) In the future, the Firm will better document its audit procedures and conclusions with respect to valuations of issuances of common stock when no price comparables are readily available as well its evaluation of rationale for how the stock-based compensation arising therefrom is being recognized in its Profit and Loss results. The Firm believes that the circumstances outlined above support the fully expensing of the stock-based compensation in 2016 as appropriate and that in the circumstances no further audit procedures were necessary concerning the valuation of \$.05 used to value that compensation, since that may have been the best usable choice in this case. In the future, the Firm will seriously consider whether an issuer/preparer might best disclose such an issuance with no value assigned for measured stock-based compensation where there is no significant publicly traded volume in the markets where the shares are traded and there is also no history of private placements that may readily provide a price to facilitate a measurement (and the services provided are not easily quantifiable in dollars).

Issuer B

- (1) *the failure to perform sufficient procedures to test the valuation of revenue (AS 2501.04 and .11); and*
- (2) *the failure to perform sufficient procedures to test the valuation of a related party transaction (AS 2410.11).*

Response:

- (1) The contracts in effect in 2016 were all Hurricane Sandy related elevation projects involving customers subsidized under a New Jersey program (i.e., Renovation Remediation Elevation and Mitigation or “RREM”). The average contract amount for the 17 contracts in effect at December 31, 2016 was \$143,447. A predecessor of Issuer B had substantial prior experience with this type of contract. Issuer B (and the predecessor of Issuer B as well) have a limited number (approximately 11) of employees consisting of 5 crews with each having a crew chief and

assistants that performs tasks on each job such as carpentry, but not other tasks such as masonry work performed by subcontractors. Therefore, approximately 6 jobs are earnestly in progress at any one time. Thus 6 contracts were initially assigned that commenced construction in earnest after their assignment to Issuer B at the inception (from August 19, 2016 to August 23, 2016, when they were transferred to Issuer B. Billing of phases of the construction on each of the jobs to each customer involve a rigorous approval process for the particular customer to collect the subsidy under RREM that the customer uses to pay Issuer B) as work progresses. So, a construction job that might only take a few months to complete can take much longer due to the RREM approval cycle causing delays. The calculation of RREM assistance takes into consideration amounts from other sources such as insurance, FEMA, SBA, and non-profit organizations.

The 30% estimated gross profit percentage (before any deduction for employee compensation) used by the issuer was based on the historical experience of the predecessor of Issuer B and its CEO Vincent Simonelli (also CEO of the issuer) and appeared reasonable under the circumstances. The Firm analyzed December 31, 2016 YTD billings and costs for the individual contracts then in effect and determined that there were no indications that the estimated costs at completion would exceed 70% of the contract price for any of the respective contracts. The analysis did not suggest any indication that the 30% estimated gross profit was likely to vary from the 30% rule of thumb used by the issuer for recognizing estimated gross profit under the percentage of completion method at 12/31/2016.

The Firm work papers provided to the PCAOB Team did contain a contracts schedule at inception (August 19, 2016) which the Firm used to ascertain that costs in excess of billing and estimated earnings at that date were \$18,325 and billings in excess of costs and estimated earnings were \$41,091 for the 6 acquired contracts. Accordingly, the principal cause for the increase in billings in excess of costs and estimated earnings from August 19, 2016 of \$41,091 to \$283,114 at 12/31/2016 is attributable to the issuer invoicing amounts to customers for work approved under the RREM to be collected by the Company from them which we believe reinforced the accuracy of the 30% estimated rule of thumb gross profit, since the Firm took great care in its audit to insure that job costs for each of the jobs were accrued up to date at 12/31/2016 by us performing substantive accounts payable cut off tests at 12/31/2016 in our audit (as well as at 9/30/2016 in our interim 10Q review).

Remedial actions described in the Firm's response to the PCAOB comment form relating to this issue included additional audit procedures designed to disclose individual construction contracts that might suggest serious deviations from cost estimates embodied in the "rule of thumb" gross profit method used. Our procedures did not detect any material adjustments required to the December 31, 2016 Form 10-K consolidated financial statements.

In future audits of Issuer B and other issuers using the % of completion method, the Firm will carefully ensure the sufficiency of procedures it applies in the circumstances, so it is clear that they are adequate to address the PCAOB's concerns about the Firm's adherence to both AS2301 Responses to the Risks of Material Misstatement and AS2501 Auditing Accounting Estimates, and the Firm will make a strenuous effort to well document the procedures and the Firm's conclusions drawn from them.

- (2) The predecessor of Issuer B and Issuer B had no audited financial statements as of the August 19, 2016 acquisition date or the December 31, 2015 previous balance sheet date. The cost of auditing the predecessor of Issuer B was considered to be prohibitive by the issuer. The subsidiary of Issuer B which Issuer B acquired from the predecessor of Issuer B on August 19, 2016 was recently formed and had no operations, assets or liabilities at the August 19, 2016 acquisition date.

The predecessor of Issuer B's consolidated 2015 Form 1120 income tax return was prepared by an independent CPA financial advisor to Issuer B, the same individual that prepared the financial statements of the issuer. The income tax basis Balance Sheet of the predecessor of Issuer B in its 2015 Form 1120 indicated total assets of \$1,128,953, total liabilities of \$957,926, and total stockholders' equity of \$171,027 at December 31, 2015. The principal difference between the tax return balance sheet tax basis would be that the tax return does not reflect assets and liabilities arising out of the % of completion method used for the GAAP based consolidated financial statements of Issuer B at the date of the acquisition of the 6 contracts, after the 6 contracts were transferred to it. The 2016 income tax returns for the predecessor of Issuer B have not been filed yet.

The additional Firm work papers provided to the PCAOB Team during the inspection contained a contracts schedule at inception (August 19, 2016) which the Firm used to ascertain that costs and estimated earnings in excess of billings at that date were \$18,325 and billings in excess of costs and estimated earnings were \$41,141 for the 6 acquired contracts, or a net liability of \$22,816. In addition, the principal cause for the increase in billings in excess of costs and estimated earnings from August 19, 2016 of \$41,141 to \$283,114 at 12/31/2016 is attributable to the issuer invoicing amounts to customers for work approved under the RREM to be collected by the Company from them. The calculation of RREM assistance takes into consideration amounts from other sources such as insurance, FEMA, SBA, and non-profit organizations.

The Firm took great care in its audit to ensure that job costs for each of the jobs were accrued up to date at 12/31/2016 by us performing substantive accounts payable cut off tests at 12/31/2016 in our audit (as well as at 9/30/2016 in our interim 10Q review). So, the Firm is confident that the \$22,816 net liabilities in excess of assets arising out of the % of completion method for GAAP at 8/19/2017 is accurate. While the Firm considered the \$22,816 impact on the amount recorded and disclosed for the carrying amount of \$0 for the 6 acquired contracts in the consolidated financial statements and notes thereto audited by the Firm for the year ended 12/31/2016, it did not document that consideration well in its workpapers.

The predecessor of Issuer B intended to refer future work to the issuer. In addition, job contracts not transferred on 8/19/2016 from ANC to the then subsidiary of Issuer B were expected to be construction jobs that were substantially in progress at the date that would be completed by ANC (rather than by the Issuer B subsidiary). So, the Firm did not expect any other assets or liabilities reflected in the predecessor of Issuer B's consolidated 2015 income tax return would further impact the historical basis of the six contracts assigned to Issuer B's subsidiary by the predecessor of Issuer B.

Other than the 4.5% of the predecessor of Issuer B's capital stock acquired and contracts assigned by the predecessor of Issuer B in subsequent separately recorded transactions, the issuer did not receive any assets from the predecessor of Issuer B and did not assume any liabilities from the predecessor of Issuer B.

Remedial actions described in the Firm's response to the PCAOB comment form relating to this issue included additional audit procedures to reinforce that conversion of the predecessor entity's Tax Basis financial statements to GAAP Basis historical carrying value related to percentage of completion adjustments would not have a material impact on the amounts recorded and disclosed for the six contracts acquired. Our procedures did not detect any material adjustments required to the December 31, 2016 Form 10-K consolidated financial statements.

In future audits of Issuer B and other issuers with respect to acquisitions of assets from individuals/entities under common control with the issuer, the Firm will carefully ensure the sufficiency of procedures it applies in the circumstances, so it is clear that they are adequate to

address the PCAOB's concerns about the Firm's adherence to AS2410, Related Parties, and the Firm will make a strenuous effort to well document the procedures and the Firm's conclusions drawn from them.

Issuer C

- (1) the failure to perform sufficient procedures to evaluate the accounting for, and test the valuation of, long-lived assets (AS 2810.30 and .31; AS 2501.04); and*
- (2) the failure to perform sufficient procedures to evaluate the issuer's ability to continue as a going concern and the corresponding failure to evaluate related disclosures (AS 2415.06- .08 and .11; AS 2810.31).*

Response:

- (1) The Firm performed procedures to evaluate the reasonableness of significant assumptions used in the issuer's undiscounted cash flow forecast used in its impairment analysis. Specifically, among other things, as documented in the work papers, the Firm:
 1. Compared average sales prices for apartments, villas, and townhouses (collectively, the "Residential Zone") used in the issuer's undiscounted cash flow forecast as of December 31, 2016 to the average sales prices used in the independent appraiser's appraisal as of January 15, 2015. The Residential Zone accounted for 79% of the net operating income per the issuer's undiscounted cash flow forecast as of December 31, 2016 and 78% of the net operating income per the independent appraiser's appraisal as of January 15, 2015. The Firm noted that if a 25% decrease in sales prices from that used in the independent appraiser's appraisal as of January 12, 2015 were used (which decrease is likely excessive based upon Firm's readings of articles relating to Oman real estate prices included in 2016 interim review W/P's), gross revenues (and cash flow) per the issuer's undiscounted cash flow forecast would have been OMR 331,457,000 lower. The Firm also noted that if this OMR 331,457,000 decrease was used, net cash flow would have been OMR 880,191,000 and the "probability weighted net cash flow (using 75% weight for completion of project and 25% weight for non-completion) would be OMR 660,143,000 (\$1,716,372,000), \$997,758,000 more than the \$718,614,000 carrying value of the property."
 2. Compared revenues, costs, and cash flow for the "Landmark Zone" and the "Tourism and Cultural Zone" used in the issuer's undiscounted cash flow forecast as of December 31, 2016 to amounts used in the independent appraiser's appraisal as of January 15, 2015.
 3. Key assumptions in the July 2015 recording of \$718,614,000 assets in the 12/31/2015 Firm audited consolidated financial statements were included within a report by Price Waterhouse dated August 31, 2015 (email provided the PCAOB Team on December 8, 2017). These key assumptions were also contained in three independent appraisals (one of which was prepared by the independent appraiser in January 2015) and were averaged by the issuer preparer to arrive at the recorded fair value. Our firm tested those assumptions and the mathematical accuracy of the 12/31/2015 information that supported the \$718,614,000 recording in the Issuer C's 10K filed consolidated financial statements for that year. Key assumptions at that time included individual unit prices of the project to be constructed for hotel, retail, residential units, etc and prices to be charged for rentals and sales of the units in each constructed category, as well as targeted dates of construction completion of them and when they would be rented or sold. While not well documented by the Firm in its audit work papers, the composition of each category of units to be constructed for hotels, retail, residential units, etc for the financial model prepared by the Issuer's Chief Financial Officer

does in fact contain units in each category that are for the most part the same as they were in the information that supported the originally recognized amounts in the Company's consolidated financial statements on the signing of the Usufruct Agreement on July 2, 2015 and the timetables for construction are similar or the same for the Issuer's Chief Financial Officer as they were in the independent appraiser's appraisal except that the project commencement date was delayed due to difficulty in arranging the project financing which is being experienced by Issuer C's subsidiary Oimage LLC (which is similar at this time for other smaller developers of mixed use projects). Another key assumption, of course, is the commencement date for construction and at what prices each component's units can be sold or rented.

Accordingly, most of the significant assumptions used in the independent appraiser's appraisal as of January 15, 2015 (which excerpts were included in our December 31, 2015 audit work papers and provided you on December 8, 2017) were tested for reasonableness in connection with our December 31, 2015 audit.

Redacted. Confidential Treatment Request Granted by the Board Pursuant to PCAOB Rule 4007(b)

Similar to other land developers and home builders, such as Beazer Homes USA, Inc. (BZH), D.R. Horton, Inc. (DHI), Hovnanian Enterprises, Inc. (HOVNP), KB Home (KBH), Lennar Corporation (LEN), NVR, Inc. (NVR), PulteGroup, Inc. (PHM), and Taylor Morrison Home Corporation (TMHC) (see Exhibits A and A-1), the issuer classifies land under development relating to residences to be sold upon completion (including those that are not expected to be sold within one year) as inventory.

The Company's purpose in acquiring the land under the Usufruct Agreement and related rights was to develop it, not to either hold such land for investment purposes or resell it. The government of Oman has a long-term stated plan to diversify its oil dependent economy through, among other things, tourism. Accordingly, land development projects in Oman had continued to commence and be successfully completed over the past several years in the area of the country in which the land in question owned by Issuer C's subsidiary was acquired. While the market for such projects had flattened out for mixed use developments targeted for expatriates in 2016 in Oman due to the impact of severe declines in oil prices since mid – 2014, prices impacting the mid-east dependent economies, including Oman, published at the time of the audit that the long-term prospects in 2016 for continued Oman development and expected Oman economic stability suggested that the Oman Project's development, while delayed, had a reasonable chance of being completed. Smaller developers such as Issuer C have had difficulty in lining up long term financing to commence sizable development projects. However, the best use for the land is likely to be for use in development. Based upon the Usufruct Agreement terms, it is unlikely that Issuer C could or would be able to sell the land to a buyer other than the government. That said, at 12/31/2016, Management of Issuer C, pursuant to ASC 360-10-45-6, had no change in its plans to develop and sell residential units in the Oman Project it expected to complete, albeit with delays due to difficulty in obtaining financing perhaps attributable to temporary conditions that were beginning to stabilize in 2016. For example, Oman government borrowing affecting credit availability. We as auditors of the 12/31/2016 Issuer C consolidated financial statements believed that Management still had a reasonably possible but not assured chance to execute

that plan. We as auditors still do believe that. Therefore, we were comfortable with the Issuer/Preparer disclosure about its vulnerability and related uncertainties should this permanent financing to commence and complete the Project continue to be delayed or not obtained (“may not be able to recover the \$718,614,000 value of the land rights included in the Company’s consolidated balance sheet at December 31, 2016”).

In future audits, we will perform and better document more testing (than was performed prior to the Firm issuing its auditor’s opinion on the consolidated financial statements for year ended December 31, 2016) to evaluate the reasonableness of significant assumptions used in the Issuer’s undiscounted cash flow forecast used in its impairment analysis, including the accuracy and completeness of the data used to develop the cash flow forecast. The Firm also expects its documentation to clearly demonstrate conclusions by it as a result of its impairment testing.

Remedial actions described in the Firm’s response to the PCAOB comment form relating to this issue included the Firm’s remedial review of information available in its work papers provided to the Inspection Team, and other information available in published sources at a time frame consistent with when the 12/31/2016 audit was performed and our opinion issued as a basis to support that the consolidated financial statements we opined on were reasonably presented in accordance with US GAAP when they were issued as related to the land held for development and real estate investment in the aggregate stated as \$718,614,000 were not in fact materially impaired and requiring a write down at 12/31/2016 to be fairly stated at that date. These procedures including utilizing current 2016 price information in an independently published article by a recognized authority. They also included procedures to identify other key assumptions that might affect projected cash flows, such as occupancy, room rates, and food/beverage sales given the flattened Oman real estate market and the 2014 mid-east oil economy declining in 2015 and 2016 (beginning to stabilize going forward into 2017-2018). Based on these additional procedures, we believe that changed assumptions in the projected cash flows relating to construction, operations, and terminal sales values with longer construction and holding periods are reasonable. Therefore, no material adjustments are required to the December 31, 2016 Form 10-K consolidated financial statements for the impairment of land under development and real estate held for investment.

(2) The Firm disagrees with the issue presented.

As of the April 14, 2017 filing date of the issuer’s December 31, 2016 Form 10-K, the issuer was focusing on three sources to provide sufficient funds to commence construction of the Oimage Project:

- 1) Estate of Barri Badran Hamdan Ai-Neami - An Investment Agreement was signed by Mr. Ai-Neami on November 17, 2016 regarding a \$125,000,000 investment in exchange for a 25% ownership stake in Oimage LLC. Mr. Ai-Neami subsequently died in late November 2016. His heirs had advised issuer management that the Estate intended to consummate the transaction upon settling of the Estate.
- 2) Kosovo investment funds – the Issuer’s Chief Financial Officer has relatives in Kosovo who introduced the issuer to these funds. According to issuer management these funds expressed interest in investing \$25,000,000 to \$50,000,000 in the Oimage Project.
- 3) Royal Court Affairs (“RCA”) – this organization represents the personal interests of His Majesty Sultan Qaboos bin Said, the ruler of Oman. RCA owns 25% of the capital stock of Oimage LLC and, pursuant to the RCA Subscription Agreement dated April 20, 2011 (see

Exhibit 10.1 included with the Form 10-Q filed November 8, 2011), became obligated to make an OMR 7,640,625 (\$19,865,625) Deferred Cash Investment in Oimage LLC on July 1, 2016. Issuer management advised me that Oimage LLC intends to send the Deferred Subscription Notice to RCA after it receives funding from a new stockholder (such as (1) or (2) above). The RCA Subscription Agreement states “The full amount of the Deferred Share Subscription Price shall be paid by RCA to the Company (i.e., Oimage LLC) within 15 Business Days after receipt by RCA of the Deferred Subscription Notice.”

Since the above sources of additional financing may not have resulted in any funds by December 31, 2017, estimated cash flows for 2017 were considered in assessing the issuer’s ability to continue as a going concern for at least one year from the date of the financial statements (i.e., December 31, 2017). Historically, in particular during the most recent three years ended December 31, 2016, the issuer had been successful in obtaining sufficient “bridge” debt and equity financing to meet its cash needs for funding its operations so it could continue as a going concern, as follows:

	Q/E	Y/E December 31,		
	3/31/2017	2016	2015	2014
Proceeds of “bridge” debt:				
YA, net of commitment fees	\$ -	\$ 1,575,000	\$ 450,000	\$ 461,000
St George, net of original				
issue discount	-	155,000	-	-
Proceeds of convertible				
notes	- (B)	150,000	-	-
Total “bridge debt”	-	1,880,000	450,000	461,000
Proceeds of equity sales:				
Sales of common stock	132,500 (A)	769,000	1,484,700	1,797,100
Exercise of common stock				
warrants and stock				
options	-	1,700	254,060	663,500
Total equity sales	132,500	770,700	1,738,760	2,460,600
Total proceeds	132,500	2,650,700	2,188,760	2,921,600
Funding of operations:				

Net cash flows used for				
operating activities	207,044	1,521,175 (C)	2,471,338	1,374,210
Principal payments on YA				
debt	150,000	1,225,000	500,000	450,000
Purchase of equipment	-	-	6,398	3,434
Total	<u>357,044</u>	<u>2,746,175</u>	<u>2,977,736</u>	<u>1,827,644</u>
Increase (decrease) in cash	(224,544)	(95,475)	(788,976)	1,093,956
Cash - beginning	<u>229,228</u>	<u>324,703</u>	<u>1,113,679</u>	<u>19,723</u>
Cash - ending	<u>\$ 4,684</u>	<u>\$ 229,228</u>	<u>\$ 324,703</u>	<u>\$1,113,679</u>

(A). The Company sold 266,667 shares of restricted common stock to an accredited investor on 4/4/2017 for \$80,000. The Company also sold 132,275 common shares under the 2014 YA SEDA on 4/11/2017 for \$50,000.

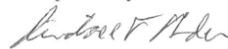
(B). The Company issued a \$100,000 noninterest bearing convertible note payable on 4/13/2017 for cash proceeds of \$50,000. The note was issued with a "sweetener," 100,000 warrants to purchase common stock as an inducement to replace a \$50,000 promissory note to the holder.

(C). Includes \$300,000 United Nations conference sponsorship fee paid to an entity controlled by the Deputy Managing Director of Omagine LLC and charged to consulting fees.

While the Company's stock trading price upon which its 'bridge' debt and equity financing to fund operations declined during 2016 due to delays in the Company cementing the necessary financing to commence construction of the Oman Project, the Firm believed it was premature to suggest that a going concern disclosure by the Company at December 31, 2016 was appropriate because the issuer was still likely to continue to raise bridge debt and equity financing to meet its operational needs, albeit with more difficulty, and the issuer had a history of tightly controlling discretionary expenses such as the level of travel and other costs incurred by it to conserve cash. Based on that, we considered it more likely than not that the issuer would continue as a going concern to December 31, 2017 and thus no emphasis paragraph in our report was necessary.

We appreciate this opportunity to respond.

Respectfully submitted,



Michael T. Studer
President

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this appendix, and any other Notes, are from the original auditing standards that are referenced. While this appendix contains the specific portions of the relevant standards cited with respect to the 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>.¹³

AS 2410, <i>Related Parties</i>		
RESPONDING TO THE RISKS OF MATERIAL MISSTATEMENT		
AS 2410.11	The auditor must design and implement audit responses that address the identified and assessed risks of material misstatement.¹¹ This includes designing and performing audit procedures in a manner that addresses the risks of material misstatement associated with related parties and relationships and transactions with related parties.¹² Note: The auditor also should look to the requirements in paragraphs .66-.67A of AS 2401, <i>Consideration of Fraud in a Financial Statement Audit</i>, for related party transactions that are also significant unusual transactions (for example, significant related party transactions outside the normal course of business). For such related party transactions, AS 2401.67 requires that the auditor evaluate whether the business purpose (or the lack thereof) of the transactions indicates that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.	Issuer B

¹³ The text presented in this appendix represents the standards as in effect during the applicable audit period.

AS 2410, *Related Parties*

Footnotes to AS 2410.11

¹¹ See paragraph .03 of AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*.

¹² See generally, AS 2301 and paragraph .17 of AS 1105, *Audit Evidence*, which provides that inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion or to support a conclusion about the effectiveness of a control.

AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*

CONSIDERATION OF CONDITIONS AND EVENTS		
AS 2415.06	In performing audit procedures such as those presented in paragraph .05, the auditor may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. The following are examples of such conditions and events: Negative trends—for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, adverse key financial ratios Other indications of possible financial difficulties—for example, default on loan or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital requirements, need to seek new sources or methods of financing or to dispose of substantial assets Internal matters—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, need to significantly revise operations External matters that have occurred—for example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operate; loss of a key franchise, license, or	Issuer C

AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern		
	patent; loss of a principal customer or supplier; uninsured or underinsured catastrophe such as a drought, earthquake, or flood	
CONSIDERATION OF MANAGEMENT'S PLANS		
AS 2415.07	If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he should consider management's plans for dealing with the adverse effects of the conditions and events. The auditor should obtain information about the plans and consider whether it is likely the adverse effects will be mitigated for a reasonable period of time and that such plans can be effectively implemented. The auditor's considerations relating to management plans may include the following: ▪ Plans to dispose of assets - o Restrictions on disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets - o Apparent marketability of assets that management plans to sell - o Possible direct or indirect effects of disposal of assets ▪ Plans to borrow money or restructure debt - o Availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets - o Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity - o Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral ▪ Plans to reduce or delay expenditures - o Apparent feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets - o Possible direct or indirect effects of reduced or delayed expenditures ▪ Plans to increase ownership equity - o Apparent feasibility of plans to increase	Issuer C

AS 2415, Consideration of an Entity's Ability to Continue as a Going Concern		
	ownership equity, including existing or committed arrangements to raise additional capital o Existing or committed arrangements to reduce current dividend requirements or to accelerate cash distributions from affiliates or other investors	
AS 2415.08	When evaluating management's plans, the auditor should identify those elements that are particularly significant to overcoming the adverse effects of the conditions and events and should plan and perform auditing procedures to obtain evidential matter about them. For example, the auditor should consider the adequacy of support regarding the ability to obtain additional financing or the planned disposal of assets.	Issuer C
CONSIDERATION OF FINANCIAL STATEMENT EFFECTS		
AU 2415.11	When, primarily because of the auditor's consideration of management's plans, he concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated, he should consider the need for disclosure of the principal conditions and events that initially caused him to believe there was substantial doubt. The auditor's consideration of disclosure should include the possible effects of such conditions and events, and any mitigating factors, including management's plans.	Issuer C

AS 2501, Auditing Accounting Estimates		
AS 2501.04	The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate accounting estimates, the	Issuers B and C

AS 2501, Auditing Accounting Estimates		
	auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.	
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: 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, <i>Using the Work of a Specialist</i>). i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.	Issuer B

AS 2502, Auditing Fair Value Measurements and Disclosures		
INTRODUCTION		
AS 2502.03	The auditor should obtain sufficient appropriate audit evidence to provide reasonable assurance that fair value measurements and disclosures are in conformity with GAAP. GAAP requires that certain items be measured at fair value. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, <i>Using Cash Flow Information and Present Value in Accounting Measurements</i>, defines the fair value of an asset (liability) as "the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale."¹ Although GAAP may not prescribe the method for measuring the fair value of an item, it expresses a preference for the use of observable market prices to make that determination. In the absence of observable market prices, GAAP requires fair value to be based on the best information available in the circumstances.	Issuer A
<u>Footnote to AS 2502.03</u> ¹ Generally accepted accounting principles (GAAP) contain various definitions of fair value. However, all of the definitions reflect the concepts in the definition that appears in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts No. 7, <i>Using Cash Flow Information and Present Value in Accounting Measurements</i>. For example, Governmental Accounting Standards Board Statement of Governmental Accounting Standards No. 31, <i>Accounting and Financial Reporting for Certain Investments and for External Investment Pools</i>, defines fair value as "the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale."		
EVALUATING CONFORMITY OF FAIR VALUE MEASUREMENTS AND DISCLOSURES WITH GAAP		
AS 2502.15	The auditor should evaluate whether the fair value measurements and disclosures in the financial statements are in conformity with GAAP. The auditor's understanding of the requirements of GAAP and knowledge of the business and industry, together with the results of other audit procedures, are used to evaluate the accounting for assets or liabilities requiring fair value measurements, and the disclosures about the basis for the fair value measurements and significant uncertainties related thereto.	Issuer A

AS 2810, Evaluating Audit Results		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS 2810.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AS 2815, <i>The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles,"</i> establishes requirements for evaluating the presentation of the financial statements. AS 2820, <i>Evaluating Consistency of Financial Statements,</i> establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuers A and C
AS 2810.31	As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. Note: According to AS 3101, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.¹⁸	Issuer C
Footnote to AS 2810.31		
18 AS 3101.41-.44.		