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Report on

2011 Inspection of Kabani & Company, Inc.
(Headquartered in Los Angeles, California)

Issued by the

Public Company Accounting Oversight Board

January 31, 2013 (as revised October 10, 2013)

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)-(B) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2013-058A
(Includes information in Part I, and related portions of the
Firm's response, redacted from PCAOB Release No. 104-2013-058)

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

2011 INSPECTION OF KABANI & COMPANY, INC.

In 2011, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Kabani & Company, Inc.[1/] ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, 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.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Firm has issued audit reports under the names of Kabani & Company, Inc. Certified Public Accountants; Kabani & Company Certified Public Accountants; and Kabani & Co. Inc.

2/ 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 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.

3/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from June 6, 2011 to June 17, 2011 and from June 22, 2011 to June 24, 2011. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Los Angeles, California)
Ownership structure	Professional corporation
Number of partners	1
Number of professional staff[4/]	31
Number of issuer audit clients[5/]	46

[4/] "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. 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 or are "associated persons" (as defined in the Act) of the Firm.

[5/] The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[7/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[8/] Depending upon the circumstances, compliance with these standards may

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[6/] This focus on weaknesses and deficiencies 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.

[7/] 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 GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8/] See AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over* 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 previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of six issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. The deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

Financial Reporting That Is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.

The deficiencies identified in all six of the audits reviewed included deficiencies 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 competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies were –

(1) the failure to perform sufficient procedures to test the classification of long-lived assets;

(2) the failure, in two audits, to perform sufficient procedures to test accounts receivable;

(3) the failure to perform sufficient procedures to evaluate transactions with related parties;

(4) the failure to perform sufficient procedures to evaluate investments in joint ventures;

(5) the failure to perform sufficient procedures to test research and development costs;

(6) the failure to perform sufficient procedures to test net capitalized software development costs;

(7) the failure to perform sufficient procedures to test revenue;

(8) the failure to perform sufficient procedures to test intangible assets;

(9) the failure to perform sufficient procedures to test inventory; and

(10) the failure, in four audits, to perform sufficient procedures to test amounts reported in statements of cash flows.

One of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement prior to the primary inspection procedures.[9/]

[9/] The Board inspection process did not include review of any additional audit work related to the restatement.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

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/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

KABANI & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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October 16, 2012

Ms. Helen A. Munter
Director - Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Response to Part I of Public Company Accounting Oversight Board (PCAOB) Draft Report on 2011 Inspection of Kabani & Company, Inc.

Dear Ms. Munter:

We appreciate the opportunity to read and comment on Part I of the PCAOB's Draft Report on the 2011 Inspection of Kabani & Company, Inc. dated September 18, 2012 ("Draft Report"). We share a common objective-serving our capital markets by performing high quality audits - and the PCAOB's inspection process serves to assist us in identifying areas where we can continue to improve our performance and strengthen our system of audit quality control. We also would like to acknowledge the professionalism and commitment of the PCAOB staff and the important role the PCAOB plays in improving audit quality.

We conducted a thorough evaluation of the matters identified in the Draft Report and addressed the engagement-specific findings in a manner consistent with PCAOB auditing standards and Kabani & Company, Inc. policies and procedures.

We remain dedicated to evaluating our system of quality control, monitoring audit quality and implementing changes to our policies and practices in order to enhance audit quality. We are mindful of our responsibility to the capital markets and are committed to continually improving our firm and the profession and working constructively with the PCAOB to improve audit quality.

Very truly yours,

Kabani & Company, Inc.

Hamid Kabani, CPA
President

A. Confidential Responses to Public Portion of Draft Inspection Report - Insufficiently Supported Audit Opinions

Issuer A: (a) Classification of Long-lived Assets

As noted by the inspection team, the issuer has classified certain fixed assets as machinery and equipment in its year-end consolidated financial statements. Due to the nature of the issuer's business, these assets have characteristics of both mine machinery and machinery and equipment (that is, in either category.) The Firm determined that the classification at year-end appeared to be fairly presented given the nature of the fixed assets and based upon discussion with the management of the issuer. Subsequently, during examination of the classification of the fixed assets, the issuer determine it was appropriate to reclassify some of these assets to Machinery and Equipment, and therefore, reclassified these assets between Mine Development and Machinery and Equipment categories in the disclosures to the consolidated financial statements. It should be noted that these reclassification did not result in any changes to the consolidated balance sheets classification of the assets. The consolidated balance sheets classification remained the same. The reclassification did not result in change in the life expectancy or rate of depreciation of the assets. Based on the auditor's evaluation, this reclassification between the year ended April 30, 2010 Form 10-K and the three months ended July 31, 2010 Form 10-Q did not result in any change to the estimated life of the assets; depreciation expense for the periods; accumulated depreciation of any of these fixed assets; or the balance sheet classification in either in the Form 10-K or Form 10-Q.

The reclassification did not result in a change in accounting principle. The grouping of the fixed assets in the footnotes to the Form 10-K or Form 10-Q did not result in any change to the consolidated financial statements; and does not constitute a violation of US GAAP. Under US GAAP, there are no specific restrictions to group such fixed assets in either category if the assets appear to have characteristics of both categories, i.e. mine machinery and machinery and equipment.

The engagement team audited the issuer's fixed assets at year-end and determined that the classification appeared reasonable based on the above comments. As mentioned by the inspection team, for the subsequent quarter Form 10-Q, the issuer reclassified certain machinery and equipment within the fixed assets categories. However, the inspection team did not review any of the first quarter Form 10-Q workpapers to ascertain why the changes were made in classification of the fixed assets.

Issuer A: (b) Valuation of Accounts Receivable

As noted by the inspection team, the issuer currently maintains accounts receivable for which the first-in-first-out (FIFO) process is the method of collection. Due to the nature of the FIFO payment methodology utilized, the audit issue correctly questioned by the inspection team relates to how to determine the collectability of all accounts receivable balances (valuation). Please note that in accordance with contract law in China, if a customer does not identify a payment specifically towards an invoice, it is at the prerogative of the receiver of the cash to apply the payment towards the oldest amount outstanding. The agreements with the customers do not contradict this clause. Therefore, when cash is received, regardless of the customer's intention, the issuer can legally apply it towards the first invoice outstanding. The law does not allow the customer to dispute it once the vendor has identified the amount towards any invoice. As part of the audit process, the engagement team confirmed approximately 97 percent of the accounts receivable balances directly with the issuer's customers (see A-b-1), constituting enquiry as to whether there is any dispute with the totality of the balance outstanding. The audit procedures resulted in performing alternative procedures on the confirmations not received by the auditors. Even though, the confirmation process does not give evidence of collectability, the alternative procedures of subsequent collections do give evidence of both existence and valuation, i.e. collectability. The engagement team performed the alternative procedure of subsequent collections on the confirmations not received (see A-b-2). The Firm believes that since the debtor did not dispute the balance outstanding, the aging is proven correct (per the law of the land) as the balance outstanding could be comprised, legally, of the latest invoices. The Firm noted no such items. The documentation does allude to that fact.

The Company's reserving policy includes "reviews [of] the composition of accounts receivable and analyz[ing] historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. The engagement team as noted by the audit program for accounts receivable and sales under Section 4, "Testing adequacy of the allowance for doubtful accounts," documents the work and performed and workpaper index of where the allowance was tested (see A-b-3). Because of the FIFO method of relieving accounts receivable balances, most all debtors' accounts will be reasonably current. Given this, the issuer's position, as considered by the engagement team, is that the continual maintenance of customer relationships will inherently provide for these current balances as payments are continually applied against the oldest balances. The issuer noted to the either engagement team that if there were amounts disputed by a specific customer, the issuer would resolve or write-off the balance in question on a specific identification method at the time of dispute. This write-off policy is noted to be an acceptable policy if the write-off amounts are immaterial. Based upon review of the issuer's credit policy; rules prevalent in the country; payment history of the customers; and overall business practices of the industry. The engagement team correctly noted in the file that write-offs continue to be smaller, immaterial amounts, which the Firm has determined to be appropriate given the specific identification methodology.

In addition, the engagement team performed substantive testing of revenue to ensure the existence and valuation assertions were met. As part of the substantive testwork in revenue, the items selected for testing revenue, included invoices that were recorded and outstanding as of year-end, i.e. in accounts receivable and amounts were in the 91 to 180 day category in the accounts receivable aging (i.e. see A-b-4 and A-b-5 for the coking segment). The engagement team tested collectability as well as existence to ensure that revenue was properly recorded for the year ended April 30, 2010. The Firm takes all facets of audit testing, as an integrated approach, into consideration as part of its overall testing of an audit area, i.e. accounts receivable. The Firm believes substantial testing was performed to verify the valuation of receivables and allowance for doubtful accounts. The Firm documented the testing at several places in the workpaper file.

Issuer B: (a) Testing of Transactions

As noted by the inspection team, the issuer disclosed several transactions with related parties in the notes to the consolidated financial statements. The audit of related party transactions involved the Firm obtaining information about the relationships and any related party transactions, from the planning phase of the audit. As part of the process, the engagement team's audit procedures started with interviewing the issuer to update the "Client Information Sheet" (see B-a-A) to identify related party transactions. The Firm reviewed the permanent files for identification of related party transactions (see B-a-PF for manual permanent file workpapers) were related parties were identified and documented in those workpapers. The procedures also included review of prior auditor workpapers and discussion with the prior auditors; discussing prior year's related party transactions; review of previous filings with the SEC including various comments and response letters summarizing all the related party transactions to the satisfaction of the SEC (performed by engagement team). Review of the Board minutes and agreements (see B-a-BM) by identifying related party transactions. Consideration at the audit planning stage; consideration at the time of carrying out the audit procedures; consideration at the time of reviewing the consolidated financial statements; and disclosures and the Form 10-K. The Firm ensured that the audit staff did not confine the procedures to filling out a checklist for related party transactions, so it does not become too mechanical and lose focus. The process of identifying relationships, audit of the transactions and review of the accounting and disclosure treatment are carried out through via several procedures and steps. The following procedures were performed for related party transactions for this issuer:

a. At the start of the audit, communicated to the staff the names of known related parties and related-party transactions noted (see B-a–a) for consideration of related party transactions under the "Opportunities" section of workpaper Fraud Risk Factors
b. Discussed the related party issues and procedures to be performed at the planning stage and documented it in the Planning memo (see B-a-b) under "Audit Areas Discussed for Related party transaction."
c. Reviewed the documents in the permanent file, income tax returns, SEC filings (including proxy materials and Forms 8-K), comments by the SEC- specifically related to related party transactions and the clients responses to the SEC (stored in a separate folder) other regulatory filings, and current year minutes for possible related parties and related-party transactions.
d. Summarize related-party transactions found when applying audit procedures to specific accounts (for example, review of confirmation responses relating to compensating balances or guarantees and review of large, unusual, or nonrecurring transactions and conformation of research and development vendor, schedule of debt for both the Parent and South American Subsidiary). The engagement team documented a number of workpapers showing were related party transactions were tested, confirmed or discussed (see B-a-d).
e. Reviewed related-party transactions during the review of subsequent events, including consideration of whether large or unusual transactions identified in the review of subsequent transactions involved related parties. The engagement team identified a related party individual's compensation as part of subsequent events (see B-a-e).
f. Inquired of management about the existence of related parties and related-party transactions and obtained the "Management Representation Letter" indicating completion of the related party disclosure under Number 9 (see B-a-f).
g. Obtained various confirmations from the related parties to verify if there are discrepancies between the issuer and the related party individuals or direct or contingent liabilities (see B-a-g). Also reviewed the minutes of the Board of Directors to identify the related party transactions (see B-a-BM).
h. The engagement team considered the possible existence of the related party transactions while reviewing the nature and extent of business conducted with borrowers, and lenders and significant unusual transactions reported late in the period, for indications of undisclosed related-party relationships. The engagement team signed-off the payables audit program as to related party transactions (see B-a-h).
i. Reviewed the invoices from law firms that have performed services for the Company for the existence of related-party relationships. The legal confirmations did not reference any related party transactions (see B-a-i).
j. Considered as part of the overall audit as to whether related-party transactions are occurring but not being recognized in the accounting records during the general audit procedures performed for various assets, liabilities, equity and income and expenses. Under the Disclosure Requirement for Financial Statements of Smaller Reporting Companies, the engagement team completed and signed-off on related party transactions and common control section (see B-a-j). In addition, under the audit program income and expenses signed-off on Section 3 of the audit program (see B-a-j-1).
k. Checked the equity transaction to verify any related party transactions. The engagement team performed audit testwork under the equity section specifically for related party transactions for equity based compensation and stock issuance for services (see B-a-k).
l. At the time of evaluating the business rationale for any significant unusual transactions, the engagement team considered whether the transactions are with previously unidentified related parties. Based on the review of the predecessor audit workpapers and memorandum prepared by the engagement team based on the review of those files; the engagement team had identified related party transactions prior to the start of the current year under audit.

m. During the process of the audit, considered the effect on the risk assessment including fraud risks and the need to perform additional procedures for undisclosed related party transactions. See item (a) above for area of documentation of related party transactions.
n. Considered whether the accounting for related-party transactions is appropriate to the consolidated financial statements and disclosures in the Form 10-K. See items above and disclosure s of related party transactions in the consolidated notes to the financial statements, including audit workpapers referencing to related party transactions (see B-a-n).

In addition, the Firm adopted the detailed disclosure checklists provided by Practitioners Publishing Company ("PPC") Software, and applied to all the disclosures including related party disclosures to identify completeness of the disclosure, in addition to other regular review processes.

Issuer B: (b) Valuation of Investments in Joint Ventures

As noted by the inspection team, due to the lack of performance by the 49 percent joint venture under the respective agreement including failure to establish an entity as the WFOE in order to transfer assets that would add value the issuer determined that the decline in value of this investment was deemed to be "other than temporary." Therefore, the entire investment was considered to be impaired during the year ended December 31, 2010. With respect to consideration of further impairment, we note that FASB ASC 360-10-35 uses "events and circumstances" criteria to determine when, if at all, an asset (or asset group) is evaluated for recoverability. Thus, there is no set interval or frequency for recoverability evaluation, unlike annual requirement for testing goodwill for impairment. ASC 360-10-35 provides a list of examples of events or changes in circumstances that indicate the carrying amount of an asset (or asset group) may not be recoverable and thus is to be evaluated for recoverability. Based on the factors and indicators that the joint venture failed to establish certain parameters as discussed above, the impairment loss was deemed appropriate. The engagement team reviewed the issuer's memorandum relating to the investments in a 49 percent equity interest in a joint venture and concluded on the same memorandum the auditor's conclusion as to the impairment of the entire investment. The auditor's conclusion was based on the fact that the issuer was unable to reach an agreement with the investee in order to proceed with the joint venture transaction (see B-b-1).

During November and December 2010, the issuer further issued shares of its common stock to two additional joint ventures. At December 31, 2010, these joint ventures have not commenced operations, so the carrying value of this investment is equal to the amount invested (trading price of common stock on date of agreement.) The Firm based on the issuer's prepared memo, discussion with management and the dates that the investments were made, the Firm concurred with management that the investments did not meet the criteria of impairment based on ASC 360-10-35. These investments were accounted under the equity method; however, there were no assets acquired or liabilities assumed. In addition, based on the date that the investments were made (during the fourth quarter of the year), they do not appear to be impaired as there are no triggering events that would deemed these investments impaired as in comparison to the impaired joint venture previously mentioned. The issuer plans included the beginning of operations in the next fiscal year, so these two joint ventures would only start obtaining assets and assuming liabilities subsequently to the issuer's year-end, i.e. December 31, 2010. The engagement team reviewed the issuer's memorandum relating to the investments in the two additional joint venture arrangements with separate unrelated parties and concluded on the same memorandum the auditor's conclusion that there is no impairment deemed necessary. The auditor's conclusion was based on the fact that the issuer made the investments in the last quarter of the issuer's fiscal year and that these joint ventures would start operations in the next fiscal year. In addition, the auditor's conclusion was based that no assets acquired or liabilities assumed, and that the investment amount contributed by the issuer was for the initial capital (see B-b-2).

Issuer B: (c) Research and Development Costs

With respect to the professional services costs incurred, all invoices in which the vendor has charged the issuer for professional service activities, the vendor breaks down the charges for the details of their own expenses such as operational staff, project management or site acquisition. The copies of all the invoices were part of the Firm's documentation. The site acquisition costs (in accordance with the respective agreement, see B-c-2a and 2b) represent identifying the site for lease, etc. Per the definition in the agreement of the site acquisition allocation, site acquisition costs comprises identifying the sites for lease acquisition and future leasing these sites; obtaining an option to acquire the land; assessing the feasibility of the proposed project; and negotiating the terms of purchase, and arranging financing for the purchase. FASB ASC 970-340-25-3 states that pre-acquisition costs can be capitalized only if all of the following conditions are met:

a. The costs are directly identifiable with the specific property.
b. The costs would be capitalized if the property were already owned.
c. Acquisition of the property or of an option to acquire the property is probable. (This condition may only be met if the developer is actively seeking to acquire the property and has the ability to finance or obtain financing for the acquisition and there is no indication that the property is not for sale.)

As these costs were incurred by the vendor in completion of the R&D activities and no acquisition of sites had yet occurred as of year-end, none of above conditions were met. There are no specific sites associated as of year-end; there is no ownership by the issuer; and it does not appear probable that the acquisition of property will occur due to uncertainty about the ability to obtain financing. As such, these costs would not qualify for capitalization.

The engagement team performed the following audit procedures:

(i) Vouched the entire research and development charges (there is only one vendor not two vendors as mentioned in the draft inspection report)(this vendor is not a related party to the issuer as shown by the confirmation received) that performed services on behalf of the issuer (see B-c-1);
(ii) Read and agreed the amount of the invoice fee per the invoice received by the issuer from the vendor to the issuer's general ledger without exception (see B-c-1);
(iii) Performed procedures to understand the nature of the professional services been rendered by the vendor by reading and reviewing the Agreement for Professional Services (included in the permanent file, see B-c-2a and 2b) as part of the vouching process for the vendor invoices.

The invoices vouched only mention "Site Acquisition" and not "Site Acquisition and Construction" as mentioned in the draft inspection report. As FASB ASC 730-10-05-2 states that if there is no degree of certainty on the research and development project, then the costs should be charged to expense when incurred, instead of being capitalized. Based on the audit procedures performed and discussed above, the Firm did perform sufficient audit procedures to ascertain if R&D costs were appropriate, valid, and appropriately recorded in the issuer's statements of operations.

Issuer C: (a) Valuation of Capitalized Software Development Costs

In response to testing of technological feasibility, we note that the capitalized software costs included in the period under audit only related to software where feasibility was attained in prior periods, not the current period; and related to the purchase of external (purchased) software in the current period. The engagement team reviewed and assessed the technical feasibility report provided by the issuer for the "acquisition of the purchased software.(see C-a-1)" The Feasibility report provided in the workpaper file describes the following as specified in ASC 985-20-25-2, even though the words 'feasibility study' are not directly mention on the document:

- The features of the [purchased] software,

- Its functionality (Section 2 of the report), and
- The technical performance requirements & integration with the [existing internally developed software] of the issuer (Section 2.8 and 2.10 of the feasibility report).

Before purchasing the [external] software, the issuer performed a 'Requirement Analysis' for determining the criteria to search and acquire the most reliable and resourceful [external software]. In this requirement analysis, the issuer established the need of adding the [purchased software] to the [internally developed software], the specific requirements of the [purchased software] as required by the [internally developed software] and the feasibility of developing versus purchasing the software. As discussed in FASB 985-20-25-7 through 25-10, the purchased computer software met the requirements for capitalization as technological feasibility was attained. The engagement team performed the following audit procedures (see C-a-2):

1. Reviewed the purchase order from the issuer and invoice from the vendor (testing existence and valuation);
2. The internal authorization of the purchase order from the issuer's management;
3. Auditor verified that the purchased software was purchased in the appropriate period (testing completeness)

Therefore, it is incorrect to characterize the feasibility report prepared specifically for the projects as product literature. The issuer has a policy of preparing customized feasibility report for all software, which was developed internally. Each such feasibility report is prepared on the issuer's letterhead separately for each project (see C-a-1). Prior to the issuer's year-end, the complete product, both the purchased computer software and the internally developed software, was placed into service and started generating revenue. The engagement team verified this revenue stream through the audit procedures documented in the revenue section under export licenses (see C-a-3).

In response to capitalization of depreciation, the Firm noted that FASB ASC <u>985-20-25-3 through 25-11</u> do not define which costs should be included in production costs. The same principles that are used to determine the cost of other inventory items also should be used to measure the cost of software products. Therefore, production costs should include direct and indirect costs, such as programmers' salaries, outside contractor costs, computer time, and allocated facility costs (to the extent that such costs clearly relate to production), among others. General and administrative expenses should be expensed as incurred as period costs. Specifically, FASB ASC 985-20-25-5 specifically states that *"An entity may capitalize an allocated amount of indirect costs, such as overhead related to programmers and the facilities they occupy. However, an allocation of general and administrative expenses is not appropriate because those costs relate to the period in which they are incurred"*

The engagement team audited the intangible costs to be capitalized as part of the development software costs, as part of this testing depreciation was capitalized based on the above discussion (see C-a-4). Based on this, depreciation of assets is a significant expense for the issuer with approximately 71 percent of the depreciation expense directly related and appropriately considered as 'cost of revenue' in the statements of income and approximately 29 percent considered as general and administrative expenses. Out of the depreciation included in cost of revenue, approximately 5 percent is capitalized (calculated in ratio of direct capitalized costs) during the year as cost of development of intangible assets. This means that the depreciation expense capitalized by the issuer is a part of 'cost of revenue' and not general and administrative expenses. The depreciation capitalized is only that for the facility and the equipment used and occupied by the programmers engaged in developing the software, and is specifically identifiable as such. As a result, the Firm has concluded that such depreciation cost should be capitalized as overhead-related costs. The engagement audited this capitalized depreciation for software development costs (see C-a-5).

In response to testing software to assess whether development costs are recorded at the lower of unamortized cost or net realizable value, the engagement team did obtain an independent appraisal of software costs. The Firm prepared several memos and an audit program: Memos (a) Using the Work of the Specialist based on AU Section 336 (see C-a-6) and (b) Valuation Report from a Specialist (see C-a-7); and the Audit Program, Using the Work of a Specialist (see C-a-8). The Firm believes it has sufficient documentation in that regard to test and evaluate the valuation of the capitalized software development costs. In addition, we note that this comment was not received by us in the official comment forms given by the PCAOB at the exit conference.

Issuer C: (b) Revenue Recognition

The Firm has performed sufficient audit testwork related to revenue recognition for this issuer. However, the documentation of its audit considerations and testwork may have required improvement. For purposes of our audit testwork related to this issuer and for purposes of our response, we make reference to multiple-element arrangements as defined in FASB ASC 985-605-25. Further, we also note that for purposes of this issuer, the assessment of the appropriateness of the accounting for multiple elements relates to service contracts that are sometimes signed at the same time that license contracts are signed (FASB ASC 985-605-25-76 through 25-85). The contract that the inspection team reviewed had both the service contract and the license contract signed on the same date (see C-b-1 and C-b-2).

In response to multiple element arrangements, based upon the audit procedures performed by the engagement team, it was determined that the service revenue should appropriately be accounted for separately from license revenue because the following conditions are present in all of the issuer's customer contractual arrangements:

a. Sufficient vendor-specific objective verifiable evidence exists to permit allocation of revenue to the elements in the license and services arrangements;
b. The service is not essential to the functionality or any other component; and
c. The service is described in the contracts such that the total price of the arrangement (aggregated) changes significantly with the exclusion of services.

The engagement team prepared a memorandum detailing the above processes and steps performed during the audit (see C-b-3 and C-a-3).

In response to vendor-specific objective verifiable evidence and whether the total price of the arrangement (aggregated) changes significantly, the engagement team tested and documented that the issuer negotiates the fees for services and licenses separately, and they are priced separately (see C-a-3). Service revenue is always determined by the total estimated man days needed to provide such services, at a substantially similar rate. The license fees are clearly related to a different fee structure than the services, even though pricing may vary from customer to customer, but are un-related to the pricing for services. The issuer negotiates pricing for licenses based on several marketing-related factors, including geographic locations, whether the customer is a new customer or a high-exposure customer (for example; a new large customer that could lead to further sales by that customer or other customers because the issuer receives positive exposure from selling licenses to a big company within a specific industry may receive a larger discount for the goodwill received from establishing that big customer relationship). However, in any case, the fees are always negotiated separately for licenses and services both when sold together as well as when sold separately. Although the license fees vary, the Firm has concluded that any differences in licenses fees appear consistent with the issuer's marketing strategies as described above.

In response to determining the essentiality of the service element to the functionality of the software, the engagement team tested and documented that consistent with the issuer's determination of the arrangements, the issuer's software application is off the shelf software as evidenced by the fact that the software being sold is also sold separate from service contracts and is useable in these cases immediately upon delivery by the issuer (see C-b-3 and C-b-4). It also requires no further modification in order to do so. These services normally include data migration, gap analysis, testing and training and does not relate to modification of the software license being sold (see C-b-3). As the issuer is the domain expert of its product, its customers request for the provision of said services for which it charges them separately on a person-day rate basis. All the services including person-days are agreed upon with the customers. The customer signs off and approves these efforts before the work is started (see C-a-3).

The Firm notes that in accordance with FASB ASC 985-605-25-82; although, some service contracts are signed by certain customers that have purchased licenses in cases where that customer has requested unique installation or migration services, "Actual use by the customer and performance of other elements of the arrangement are not required to demonstrate that the customer could use the software off-the-shelf". Therefore, although a specific customer will not use the software license purchased from the issuer until their specific application of the software is ready for its future intended use. This fact alone does not change the fact that the issuer sells off-the-shelf software, as evidenced by the sales of the same software to other customers that have not requested services, where those customers are able to use the software in question immediately upon receipt by the issuer. The engagement tested and documented that product software was sold without providing services (see C-a-3).

Further, we reference FASB ASC 985-605-25-85 with respect to assessing whether the service element is essential to the functionality of the other elements of the arrangement, the Firm appropriately considered the following items:

a. *The software is not off-the-shelf-software:* The Firm has audited that the software is off-the-shelf.

b. *The services include significant alterations to the features and functionality of the off-the-shelf software:* The Firm has verified that the services are not significant alterations.

c. *Building complex interfaces is necessary for the vendor's software to be functional in the customer's environment:* The Firm has analyzed that complex interfaces are not required in order for the software to be fully functional.

d. *The timing of payments for the software is coincident with the performance of services:* The Firm has verified that although payment terms are granted, the same time-frame and similar terms are also granted for licenses sold without services and are simply a product of assisting the Issuer's customers in paying for the software purchased.

e. *Milestones or customer-specific acceptance criteria affect the realizability of the software license fee:* The Firm has noted in the current year as well as previous years that the issuer does not have a history of collectability issues or write-offs.

The engagement team audited the above items through procedures performed in the workpapers (see C-a-3, C-b-3 and C-b-4). Additionally, we reference FASB ASC 985-605-25-85: Judgment is required to determine whether the obligation to provide services in addition to the delivery of software should be accounted for separately as a service element. Services that qualify for accounting as a service element of a software arrangement always are stated separately and have any of the following characteristics:

a. The services are available from other vendors.

b. The services do not carry a significant degree of risk or unique acceptance criteria.

c. The software vendor is an experienced provider of the services.

d. The vendor is providing primarily implementation services, such as implementation planning, loading of software, training of customer personnel, data conversion, building simple interfaces, running test data, and assisting in the development and documentation of procedures.

e. Customer personnel are dedicated to participate in the services being performed.

As per the audit procedures performed by the engagement team and its understanding of the issuer's business over the previous audited years, the Firm concluded that not only are one of the above-mentioned characteristics present, but that the all of the characteristics are present in all instances (see C-b-3).

Lastly, based upon enquiries with the issuer during the audit fieldwork, the engagement team evaluated that the discount on licensing of the software is based upon the region in which the customer is located and the size of the customer business. The price of the software modules are relatively comparable and within a certain price range during a year. Since the engagement team has evaluated that the services are not significant to the functionality of the software and can be recorded separately, the discounts on licenses and services are appropriately recorded under the respective contract and are not separable.

Based upon the audit procedures performed (see workpapers referenced above) by the engagement team, the Firm concluded that multiple-element arrangements within the revenue contracts entered into by the issuer have adequately been assessed as stated by FASB ASC 985-605-25.

In response to the recognition of recognizing license fees upon shipment or delivery, in addition the above information, we further note that license revenue was recognized only after receiving the user acceptance which is an acknowledgement by the customer that the license has been successfully delivered and is generally received within a month of the delivery of the license. The engagement team verified the user acceptance testing sign-off (see C-b-5). Further, during the Firm's audit of the license contracts, the engagement team did not notice the existence of any other clause related to seller's obligations (see C-b-4). As previously stated, the engagement team notice that services performed by the issuer are insignificant to the functionality of the license and can therefore be accounted separately based upon FASB ASC 985-605-25-85. Also, even though the license fees become a full obligation of the customer on delivery, as a business decision the issuer offers flexibility to its customers for making the payment in various installments from the gap analysis thru the system 'Go live'. However, it should be noted that even in cases where only licenses were sold during the year (without any kind of services), the issuer has offered similar payment flexibility to license only customers, too. The engagement team performed audit procedures as part of its testing of multiple-elements arrangements (C-b-3).

Lastly, based on audit experience and knowledge of this issuer, the Firm notes that the issuer does not have material amounts of bad debts in the past. As a result, the collection of the license fees was considered probable, and we therefore concluded that even though the payment clause is included in the sales contract wherein collection is spread over a period, license revenue should be recognized on delivery. The engagement team tested and assessed the potential for dab debts in the account receivables section by ascertaining the potential for an allowance for doubtful accounts (see C-b-6).

In response to accounting for services separately, as previously noted, FASB ASC 985-605-25-76 through 25-85 mentions, various criteria to determine if services offered along with the software can be accounted separately. FASB ASC 985-605-25-85 mentions that judgment is required to determine whether the obligation to provide services in addition to the delivery of software should be accounted for separately. As per the audit procedures performed by the engagement team (see workpapers referenced above) and its understanding of the issuer's business over the years, it has concluded that the all the criteria mentioned in FASB ASC 985-605-25-85 are met to determine that services offered by the issuer are insignificant to the functionality of the software license.

Issuer D: Valuation of Accounts Receivable

The engagement team performed the following audit procedures during the course of the audit to support our conclusion as to the reasonableness of the allowance for doubtful accounts at year-end. The Firm believes that the totality of the procedures is sufficient for an audit conclusion:

- Review of the Predecessor Auditor's Workpapers: June 30, 2010 was the first year audit for the Firm. The engagement team reviewed prior year audit workpapers, which were in the custody of the prior auditors in order to assess the ability to place reliance on the opening balances (see D-1).

- Assessment at the Planning Stage: The engagement team considered the reasonableness of the allowance for doubtful accounts recorded during the planning phase of the audit by inquiring of management about significant changes in the issuer's bad debt experience. The engagement team prepared an internal control assessment for accounts receivables and sales by preparing a checklist of the issuer's internal controls over accounts receivable and the allowance for doubtful accounts (see D-2 and D-3). In response to this step, management responded "no significant change" after inquiry and inspection (see D-2). The engagement team considered this step to evaluate whether there was any change in bad debt experience, which would require revision in the issuer's allowance policy. Additionally, the engagement team also inquired and noted that there were no significant changes in the customer base. The engagement team also noted the larger customers and confirmed that none comprised more than 10 percent of total revenue. The engagement team considered this factor to assess whether there was an existence of significant risk related to particular accounts receivable balances, which may require revision in the estimates for bad debts.
- Testing of the Allowance for Doubtful Accounts: The engagement team performed an analytical test to ascertain if the allowance was reasonable at year-end (see D-4). In addition, detail testing for potential bad debt were performed on other sections of the audit file, i.e. under revenue testing (see D-5) and confirmation testing (see D-6 and D-7). As noted in the workpapers, the engagement team proposed an adjustment and the issuer recorded the auditor proposed adjustment of $360,061 to the allowance of doubtful accounts (see D-4).
- Testing at the Level of Account Balance: While performing audit procedures for revenue, the Firm reviewed a sample of sales contracts in order to assess the appropriateness of revenue recognition. Based on this review, the engagement team noted that all contracts are general in nature (standardized), and filed a sample of these contracts in our permanent file. The engagement team noted that the standard agreement contains the following clause: "Quantity/Quality Discrepancy: Incase of quality discrepancy, claim should be filed by the buyer within 30 days after the arrival of the goods at the port of destination while for quantity discrepancy should be 15 days". The engagement team considered this fact pattern during the course of audit procedures, and inquired from the issuer, noting that there were no such discrepancies existing as at period end, which could affect the year-end balance of accounts receivable (see D-5).
- Test of year-end aging of Accounts Receivable: While performing audit procedures for accounts receivable, the engagement team performed the test on accuracy of accounts receivable aging on sample basis and noted no discrepancy or inaccuracy in the aging prepared by the issuer (see D-8).
- Use of Confirmations - Evidence of Existence and Valuation: The engagement team notes that confirmations procedures satisfy the following assertions: Existence, Rights and Obligations, Valuation, and Accuracy. The Firm also obtained persuasive evidence of the existence and valuation of net accounts receivable (gross balance net reserve) by sending out confirmations to selected customers with accounts receivable balances. The engagement team selected 52 percent of the total outstanding balances for confirmations (see D-6). The engagement team also appropriately performed alternative procedures for the un-returned confirmations including testing of subsequent receipts (see D-6). On obtaining confirmations, the engagement team did not note any discrepancy as to the outstanding amounts. As signing the confirmations are explicit acknowledgement of the existing balance, the engagement team obtained persuasive evidence as to the valuation and existence of accounts receivable balances (see workpapers referenced above).
- Professional Judgment: The Firm noted that the issuer's collection policy from its customers is 180 days, which corresponds with the reserving policy of maintaining a provision for the balances older than 180 days. The Firm notes that the issuer has been consistently implementing the same collection and reserving policy from prior periods. Further, the Firm inspected prior year workpapers, which state the consistency of the collections and reserving policies, noting that there were no write offs. Given the fact pattern described, including consideration that there was no significant changes in the

customer base and that no single party comprises more than 10 percent of total revenue, the Firm found it reasonable that the same reserving policy be followed in the current period under audit.

Issuer E: Valuation of Intangible Assets

The Firm performed sufficient substantive audit test work related to intangible assets for this issuer. In response to the acquisition cost recorded by the issuer for the land use right granted, the engagement team reviewed and examined the agreements with the Ministry of Land and Resources for the land granting (see E-1) and compensation fee (see E-2), as well as the agreement with the original land use rights owner, a Chinese state-owned entity and noted these agreements correlated and matched properly. The engagement team audited the acquisition costs of RMB 54,834,841 or approximately US$ 8 million per the agreements to the payment slip issued by the issuer's bank without exception (see E-3). This was a portion of the consideration to be paid by the issuer for the land use right. The total consideration paid RMB 73,184,895 or approximately US$ 10.7 million was audited by the engagement team under the intangible asset workpaper (see E-3), as part of the audit testwork, the payment documents were traced and agreed to the bank transfer slips without exception.

The engagement team obtained additional comfort level of auditing this transaction as the purchase of land use right was made from the Chinese state-owned entity, and must further be approved by the government, as well as finalized by the Ministry of Land and Resources. Per "Supervision and Administration of State-owned Assets of Enterprises Tentative Regulations" which was promulgated by the State Council on May 27, 2003 and effective as of date of promulgation, all Chinese state-owned entities are governed by the Chinese government, including the appointment of top executives and management, and approval of any mergers or sales of stock or assets (see E-4). In addition, the engagement team reviewed and examined the land use rights certificate to ensure the legitimacy of the acquisition of land use rights without exception (see E-5). This certificate is granted by the provisional government, Hu County, which includes the title, date of issuance and expiration, land location and acreage and purpose of the land use.

In response to any discrepancy in the entity to whom the payment was made, the engagement team notes that the issuer had previously commented that the payment was made to a private party, which is the Chinese state-owned entity referenced above; which is a government regulated entity as disclosed in the consolidated financial statements and noted by the engagement team in the audit workpapers (see E-2). As such, we note that there is no discrepancy in the issuer's consolidated financial statements and footnote disclosures or the audit workpapers. Lastly, the engagement team obtained and reviewed (see E-5) the approval of the transfer of the land use right by the Chinese state-owned entity.

The engagement team tested and audited the amount paid to the Chinese state owned entity as the appropriate value of the asset, which represents the fair value of the asset (see E-3). The Chinese government through its entity, the Land and Resources Bureau, is the entity that negotiates and approves the value of the land use right for a particular sector. The land use right assets in the People's Republic of China ("PRC") are usually granted for a period ranging from 30 to 50 years and give the grantee the right to use the land, including the right to erect buildings and plant and equipment on that land; however, the title to the land remains with the Chinese government. As stated on FASB ASC 805-20-55-31, contract-based intangible assets represent the value of rights that arise from contractual arrangements. Intangible assets such as "use rights" may be separable, but separability is not a necessary condition for an asset to meet the contractual-legal criterion. Based on this, the engagement team concluded that the land use rights should be appropriately reflected in the balance sheets as an intangible asset.

Issuer F: Existence and Valuation of Inventory

The engagement team confirmed 100 percent of the inventory at the outside warehouses. However, the differences noted in the workpaper (see F-1) were tested and analyzed by the engagement team, which aggregate to approximately $37,000. This difference is less than tolerable misstatement (when aggregated with all other differences), and therefore deemed immaterial to the financial statements taken as a whole. However, the engagement team did not carry-forward the total of this difference to the summary of passed audit differences.

In response to substantiating outside party's inventory confirmations, the issuer's third-party warehouse confirmations utilize an on-line-type management system. This on-line-type management system printed a report, that was sent directly to the Firm in response to the inventory confirmation request (see F-2); the mailing of which was controlled by the Firm (see F-3 and F-4). In addition, the Firm did interview the third-party warehouses and evaluated the sufficiency of procedures based on this interview; however, the engagement team did not document this process in its entirety. Additionally, the Firm considered the fact that the warehousing of inventory items is consistent with prior periods, wherein no significant issues have been noted throughout the totality of our audit procedures for inventory.

In response to the testing of the provision for obsolescence: The issuer's policy is to reserve for slow-moving inventory over one year) (see F-5 and F-6), which is consistent with the issuer's history and the auditor's experience of past audits. The engagement team based its conclusion on its knowledge of previous year's audits. The engagement team compared quantities in the current year to the prior year to ascertain if any items were deemed to be slow moving; and found no evidence that required an increase to the reserve for obsolescence in the current year (see F-6).

The engagement team noted that the inventory reserve percentage was 27 percent as of year-end. Write-offs in prior periods have been minimal based on prior years workpapers, the engagement team considered the fact that the issuer is in the audio electronics industry, where new products are regularly introduced (see F-7). The auditor has noted that no new inventory items were introduced at year-end; however, the possibility of obsolescence in this industry has to be continually monitored.

Issuers A, B, C, D, E, and F: Testing of Statements of Cash Flows

The Firm performed sufficient procedures related to auditing the statements of cash flows. The Firm further notes that generally, the auditing of the statement of cash flows for less complex entities entails simply tying out the cash flow statement amounts to the change derived from beginning and ending balances on the balance sheet, and analyzing the differences to various categories of the statement of cash flows.

The Firm does tie out the consolidated balance sheet to each subsidiaries lead trial balances and documents this procedure in the consolidating trial balance workpaper. In addition, the consolidating trial balances are referenced to each audit lead schedule by entity. The cash flow worksheet ties out to the consolidated trial balances. With respect to this, we note that typically the amounts in the statement of cash flows are formula-driven generated statements, which were verified by the engagement team. In addition to the less complex items as noted (simply changes from the beginning and ending balance sheets), there are several items, which must be disaggregated and separately tested. Again, the Firm is confident that this was sufficiently performed at the individual workpaper level.

In respect to Issuer A, the engagement team completed the disclosure checklist for larger reporting companies under the cash flow section of the checklist (see A-CF).

In respect to Issuers' B, C, D, E, and F, the engagement teams completed the disclosure checklist for smaller reporting companies under the cash flow section of the checklist (see B-CF, C-CF, D-CF, E-CF, and F-CF).

In respect to Issuer C, the engagement team had a tickmark that tied and agreed the amounts on the cash flow worksheet to the consolidation workpaper without exception (see C-CF-1).

In respect to issuer E, the engagement team linked the cash flow worksheet to the consolidating trial balance worksheet without exception (see E-CF-1). In addition, the cash flow worksheet was linked to the statement of cash flow analysis without exception.

In order to ensure that the Firm continues to perform sufficient testwork and sufficiently documents all testwork done during the course of the audit, the Firm has created a required Cash Flow Workpaper Template that will henceforth be utilized on all issuer audits. This workpaper is designed to assist engagement teams in documenting the "mechanics" of the cash flow statement balances derivation. Please refer to Attachment 1 for a copy of this Template.

Redacted - Comments on Non-public Aspects of Report