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Public Company Accounting Oversight Board

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Report on

2013 Inspection of Maggart & Associates, P.C.
(Headquartered in Nashville, Tennessee)

Issued by the

Public Company Accounting Oversight Board

March 25, 2014

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

PCAOB RELEASE NO. 104-2014-088

PCAOB

Public Company Accounting Oversight Board

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2013 INSPECTION OF MAGGART & ASSOCIATES, P.C.

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Maggart & Associates, P.C. ("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 inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit practice.

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.[1/]

[1/] In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from April 8, 2013 to April 16, 2013. 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 (Nashville, Tennessee)
Ownership structure	Professional corporation
Number of partners	6
Number of professional staff[2/]	17
Number of issuer audit clients[3/]	2

[2/] "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.

[3/] 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. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The inspection team identified what it considered to be audit deficiencies. The deficiencies identified in both 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 appropriate audit evidence to support its opinion on the issuer's financial statements or internal control over financial reporting ("ICFR"). Those deficiencies were –

Issuer A

(1) the failure, in an audit of ICFR, to perform sufficient procedures to test information technology general controls ("ITGCs");

(2) the failure to perform sufficient procedures to test the design and operating effectiveness of the issuer's ICFR related to the allowance for loan losses ("ALL"), including, but not limited to, placing undue reliance on certain reports used in testing controls related to the ALL;

(3) the failure to perform sufficient procedures to evaluate the severity of identified control deficiencies;

(4) the failure to perform sufficient procedures to test the reasonableness of the ALL; and

(5) the failure to perform sufficient procedures to test the valuation of available-for-sale investment securities ("AFS securities"), including the use of sampling with an inadequate sample size developed without consideration of appropriate factors and the failure to perform sufficient procedures to extend interim audit conclusions about the valuation of AFS securities to year end.

Issuer B

the failure to perform sufficient procedures to test the valuation of AFS securities, including the use of sampling with an inadequate sample size developed without consideration of appropriate factors and the failure to perform sufficient procedures to extend interim audit conclusions about the valuation of AFS securities to year end.

B. Auditing Standards

Each of the deficiencies described in Part I.A of this report represents circumstances in which it appeared to the inspection team that the Firm failed to comply with the requirement to obtain sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with applicable accounting principles, and/or for its opinion concerning whether the issuer maintained, in all material respects, effective ICFR. Each deficiency relates to several applicable standards that govern the conduct of audits.

AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), specify that due professional care requires the exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), 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 and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* ("AS No. 5"), and AS No. 13 establish requirements regarding testing and evaluating ICFR. In an audit of ICFR in an integrated audit, AS No. 5 requires the auditor to plan and perform the audit to obtain appropriate evidence that is sufficient to support the auditor's opinion on ICFR as of the date of that opinion. AS No. 13 requires that, if the auditor plans to assess control risk at less than the maximum and to base the nature, timing, and extent of substantive procedures on that lower assessment, the auditor must obtain evidence that the controls tested were designed and operating effectively during the entire period for which the auditor plans to rely on controls to modify the substantive procedures.

Each deficiency described in Part I.A of this report involves, in the inspection team's view, a failure to comply with the provisions cited above and also a failure to perform, or perform sufficiently, certain specific audit procedures that are required by other applicable auditing standards. The table below lists other specific auditing standards that are primarily implicated by the deficiencies identified in Part I.A of this report.[4/]

PCAOB Auditing Standards	Issuers
AU 342, *Auditing Accounting Estimates*	A
AU 350, *Audit Sampling*	A, B

C. 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.

D. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and address any such weaknesses and deficiencies. To achieve that goal, Board inspections include reviews of certain aspects

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[4/] This table does not necessarily include reference to every auditing standard that may have been implicated by the deficiencies included in Part I.A.

of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The 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. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

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 Generally Accepted Accounting Principles ("GAAP").[5/] 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 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

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[5/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "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.

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.

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.[6/] Depending upon the circumstances, compliance with these standards may require the firm to perform additional 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.

END OF PART I

[6/] 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 AS No. 5, paragraph 98.

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.[7/]

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

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February 18, 2014

Ms. Helen A. Munter
Director
Division of Registration and Inspections
1666 K. Street, N.W.
Washington, DC 20006

Dear Ms. Munter:

Below are our responses to the draft inspection report of Maggart & Associates, P.C dated January 16, 2014 related to the 2013 inspection performed by the Public Company Accounting Oversight Board (PCAOB).

A deficiency was assessed related to the failure to perform sufficient procedures to test information technology general controls ("ITGCs"). The engagement team performed tests of certain entity level and other controls, but we acknowledge that additional testing of ITGCs could have been performed. A deficiency was noted in our evaluation of the severity of identified control deficiencies. Our procedures identified the deficiencies, we tested compensating controls and determined that our conclusion with regard to the deficiencies noted were appropriate. The review comment relates to the level of documentation of our testing of compensating controls. We have since expanded our documentation of the testing of compensating controls and continue to report and evaluate the impact of the control deficiencies.

With respect to deficiencies noted related to the adequacy of procedures to test the allowance for loan losses (ALL), our firm believes its procedures were adequate to support our opinion on both the internal controls over financial reporting and financial statements. We performed several hundred hours of work auditing the ALL including extensive testing procedures such as, but not limited to the following: Reviewed documentation of management's review of the ALL and evaluated the competency of the individuals reviewing the ALL; extensively tested the entity's loan rating system and impairment calculations; tested historical charge-off data to regulatory reports and agreed totals to system generated data; tested propriety of loan charge-offs; tested calculations within the ALL calculation; independently reviewed all loan relationships considered individually material; independently reviewed all impaired, past due and classified loans over a certain dollar amount; reviewed management's assessment of environmental factors for reasonableness.

With regards to comments related to the valuation of available-for-sale securities, we respectfully disagree that our audit procedures were insufficient to test the valuation of available-for-sale securities and that our audit procedures were insufficient to extend interim audit conclusions to year end. We have been through previous PCAOB inspections and have not been criticized for our audit approach. We believe it is prudent to explain the basis for our disagreement by discussing the audit procedures we designed and performed at interim and final. Note that in addition to the procedures outlined below, there were other securities test work performed. Management for both issuers utilize a third party for bond accounting, which includes providing pricing to management on the securities portfolio. As such management is not independently pricing any securities, thus their ability to manipulate pricing without third party collusion is eliminated. Since management is utilizing a third party for valuing securities, the remaining risk of a material misstatement due to pricing would result from potential valuation errors in the third party reports. Among other things, the following are the procedures we performed to address third party pricing risks and test fair value at interim and final.

We obtained and audited the entities' interim securities reconciliations including agreeing the reconciliations to the third party provider pricing reports (thus achieving 100% verification of pricing to a third party provider). We also obtained interim Service Organization Controls Reports ("SOC 1") conducted in accordance with Statement on Standards for Attestation Engagements No. 16 ("SSAE 16") for the third party providers. The SSAE 16 engagements were performed by reputable accounting firms and their procedures did address and test that pricing, as contained in the third party provider reports, was complete and accurate (No deficiencies were noted). Placing reliance on the third party pricing agencies and obtaining and evaluating the SOC 1 reports covering the third party providers was considered our primary test permissible under auditing standards. To supplement our primary test, we selected a sample of securities to independently test pricing as provided by the third party providers to management. Independent testing of pricing was also performed within the SOC 1 reports discussed above. There were no pricing issues identified as part of our independent samples or within the SOC 1 reports. We disagree with the comment that we did not perform sufficient procedures to extend interim audit conclusions about the valuation of available for sale securities to year end. At final we again obtained and audited the securities reconciliation including obtaining the third party pricing report from outside bond accounting resulting in 100% verification of pricing to a third party provider as of year-end. We also obtained a bridge letter for the SOC 1 report updated to year end. Again no pricing issues were noted.

We believe our approach of auditing the securities reconciliation at interim and final including agreeing the pricing to the third party pricing provider, obtaining SOC 1 and SOC 1 gap letters on the third parties providing the pricing, additionally pulling an independent sample of securities from the third party bond accounting agencies for additional independent price testing, and performing other securities test work adequately addresses all plausible audit risk scenarios that could result in a material misstatement in the financial statements due to securities pricing. We will continue to perform our procedures on securities and have selected additional securities for independent pricing testing as of final to address the comment.

Maggart & Associates, P.C. has always been and continues to be committed to performing high quality audits. We continually strive to improve our audit process in any way possible and respect the PCAOB inspection process and their contributions to improving audit quality. We believe that we have taken appropriate actions in accordance with AU390, *Consideration of Omitted Procedures after the Report Date*.

Sincerely,

Maggart & Associates, P.C.

MAGGART & ASSOCIATES, P.C.