

Chapter 1

An Introduction to Auditing

TRUE/FALSE

1. [LO 1] CPAs who perform financial statement audits of public companies are responsible for the accuracy of the client's financial statements.
2. [LO 1] An auditor's report on an integrated audit will be unqualified if internal control over financial reporting does not have any material weaknesses and the financial statements are fairly presented.
3. [LO 1] Because of regulatory requirements, a not-for-profit organization's audit report may be different from that of a for-profit company.
4. [LO 1] When there is a material misstatement in the financial statements, the auditor requires management of the company to correct the financial statements so the auditor can issue an audit report.
5. [LO 2] If management has presented the actual economic events and situation according to the accounting standards, then there is a high degree of correspondence between the underlying evidence and the resulting financial statements.
6. [LO 1] An audit of a public company is referred to as an integrated audit.
7. [LO 2] The PCAOB was formed to meet one of the requirements in the Sarbanes-Oxley Act of 2002.
8. [LO 2] Auditors consider and examine ICFR for all of the same reasons, whether they are auditing a public or a nonpublic company.
9. [LO 3] Currently, the primary authoritative body that regulates individual CPAs is the Congress of the United States.
10. [LO 3] The Sarbanes-Oxley Act limits the amount of non-attest services that auditors may perform for public companies they audit.
11. [LO 5] The Audit Committee of the Board of Directors performs the audit and reports the results to shareholders and the Board of Directors.

12. [LO 3] In an ideal situation, internal auditors report to the Audit Committee.
13. [LO 3] The PCAOB jointly sets audit standards with the AICPA for publicly traded firms.
14. [LO 4] If a nonpublic company uses IFRS to prepare its financial statements, it cannot receive an unqualified opinion when audited using the AICPA Statements on Auditing Standards.
15. [LO 4] The SEC is responsible for setting standards for not-for-profit organizations.
16. [LO 5] CPAs who audit public companies may only perform attest services.
17. [LO 5] Forensic accountants often investigate fraud.
18. [App.] The organization of a typical CPA firm is similar to that of a corporation.
19. [App.] Salaried partners of a CPA firm are compensated based on a share in the firm's profit.
20. [App.] The types of business structures used by CPA firms are designed to make the professionals who own the firms responsible for providing high quality services.

Multiple Choice by Objective

21. [LO 1] An integrated audit results in:
- a. an audit opinion on the financial statements.
 - b. an audit opinion on ICFR.
 - c. a series of reports to major stakeholders.
 - d. Both a and b.
22. [LO 1] Which of the following best describes the conclusions an auditor makes in an integrated audit that results in an audit report that is unqualified?
- a. The financial statements are fair according to GAAP.
 - b. The financial statements are free of material misstatement based on U.S. GAAP and management's report on internal control over financial reporting states that there are no material weaknesses.
 - c. The financial statements and internal control over financial reporting are materially correct.
 - d. The financial statements are free of material misstatement based on U.S. GAAP and based on the audit, the auditor agrees with management's report that internal control over financial reporting is effective and does not have any material weaknesses.
23. [LO 1] What is the purpose of a financial statement audit?
- a. To provide assurance that the company is solvent.
 - b. To provide assurance that the company has an effective internal control system that can produce fair financial statements.
 - c. To provide assurance that the financial statements are reliable.
 - d. Both b and c.
24. [LO 1] Who is responsible for the design and operation of ICFR?
- a. The auditor.
 - b. The company's management.
 - c. Both a and b.
 - d. None of the above.
25. [LO 1] The audit report states that the audit provides:
- a. a guarantee of quality.
 - b. complete assurance that the financial statements are free from misstatements.
 - c. absolute assurance that the internal control environment is operating effectively.
 - d. None of the above.
26. [LO 1] Auditing is defined as a:
- a. set pattern of tests.
 - b. random process.
 - c. systematic process.
 - d. All of the above.

27. [LO 1] A “clean” audit report states that:
- a. there are no errors in the financial statements.
 - b. the internal control environment is operating well.
 - c. the auditors evaluated evidence.
 - d. All of the above.
28. [LO 1] A public company must:
- a. register with the SEC.
 - b. undergo an integrated audit.
 - c. trade on a stock exchange.
 - d. Both a and b.
29. [LO 1] Which of the following organizations is considered to be a public company?
- a. A firm whose privately held stock is owned exclusively by an individual.
 - b. A partnership of doctors.
 - c. A privately-held firm controlled by three family members.
 - d. A firm whose stock is registered with the SEC.
30. [LO 1] Financial statements must be prepared:
- a. in accordance with GAAP.
 - b. in accordance with IFRS.
 - c. in accordance with OCBOA.
 - d. Any of the above, depending on which set of standards the circumstances dictate as applicable.
31. [LO 1] The auditor:
- a. prepares the financial statements after the client agrees to all adjustments.
 - b. writes the footnotes to the financial statements to ensure their accuracy.
 - c. performs work to reach an opinion on the ICFR and financial statements.
 - d. None of the above.
32. [LO 2] The audit engagement team:
- a. is chosen by the client.
 - b. is some combination of partners, managers, seniors and associates.
 - c. is a mix of CPA firm and client employees.
 - d. None of the above.
33. [LO 2] The audit engagement team consists of:
- a. more than one partner.
 - b. associates and seniors.
 - c. managers.
 - d. All of the above.
34. [LO 2] Assertions are:
- a. audited by the auditors.

- b. declarations made by management.
- c. declarations made by the auditor.
- d. Both a and b.

35. [LO 2] Which of the following is an assertion?

- a. A statement made by management regarding the collectability of accounts receivable.
- b. The audit firm's estimation of the client's inventory obsolescence.
- c. The statement by management regarding the appointment of auditors.
- d. The statement by management that the firm will close its branch office because of snow.

36. [LO 2] Which of the following would not be considered audit evidence?

- a. Invoices received by the company and retained on the company's IT system in electronic form.
- b. The electronic work paper program package used by the auditor to produce the electronic work papers.
- c. Hard copy minutes of the Board of Directors and Audit Committee meetings.
- d. Electronic images of the front and back of checks that the company has written.

37. [LO 2] For an integrated audit to be possible:

- a. Established criteria must exist against which the financial statements and ICFR can be compared.
- b. The auditor must have sufficient knowledge of both the AICPA SAS and PCAOB AS.
- c. The entity must have sufficient books, records and other underlying evidence so that the auditor can determine whether there is a high degree of correspondence between the underlying evidence and the financial statements.
- d. a and c

38. [LO 2] COSO:

- a. is the body that established an internal control standards framework referenced by the PCAOB.
- b. published a document that explains what an internal control system should be like to be effective.
- c. is the acronym widely used to refer to the Committee of Sponsoring Organizations of the Treadway Commission.
- d. All of the above.

39. [LO 2] Auditors communicate audit results to users concerning a company's financial statements by:

- a. issuing a report on the effectiveness of ICFR.
- b. issuing the financial statements.
- c. issuing a report about the financial statements.
- d. None of the above.

40. [LO 2] Errors in financial statements are:

- a. never material.

- b. intentional.
- c. unintentional.
- d. Both a and c.

41. [LO 2] Which body regulates the audits of nonpublic companies in the United States?

- a. PCAOB
- b. AICPA
- c. IFRS
- d. SEC

42. [LO 2] Which functions do audit reports serve for the capital markets?

- a. Enhance confidence in financial statements.
- b. Provide guarantees regarding the quality of investments.
- c. Provide assurance that financial statements and management's reports on internal control over financial reporting provide reliable information.
- d. Both a and c

43. [LO 2] Shareholders use audit reports to monitor management performance. An example of an item that an audit report does **NOT** provide is:

- a. Reasonable assurance on reported information that might be used to provide justification for management's performance-based compensation.
- b. Access to foreign markets.
- c. An indication of whether or not a company has major problems in its internal control over financial reporting.
- d. Feedback on any ICFR material weaknesses that management may choose to use to improve operational or financial efficiency.

44. [LO 2] Auditors consider internal control during the audit of a nonpublic company:

- a. For all the same purposes as on an audit of a public company.
- b. To identify areas of risk and help to plan the financial statement audit.
- c. To help to plan the financial statement audit and issue an opinion on effectiveness.
- d. Only if they are sure it will be helpful when performing the financial statement audit.

45. [LO 3] The value of an integrated audit

- a. Is limited to its effects on the capital markets since integrated audits are conducted only for publicly traded companies.
- b. Extends to various groups and probably is different for the different people and entities.
- c. Is exactly the same as the value generated by a financial statement audit of a nonpublic company.
- d. None of the above are correct.

46. [LO 3] Who is responsible for oversight of the integrated audit function?

- a. Shareholders.
- b. Officers of the company.

- c. The audit committee.
- d. None of the above.

47. [LO 3] Which of the following individuals could be a member of the Audit Committee?

- a. A member of the company's Board of Directors.
- b. A member of the PCAOB.
- c. An audit partner of the CPA firm who performs the annual audit.
- d. None of the above.

48. [LO 3] The Board of Directors:

- a. Reports to management.
- b. Runs the company on a day-to-day basis.
- c. Is elected by the shareholders.
- d. All of the above.

49. [LO 3] The Securities and Exchange Commission:

- a. Is a government entity.
- b. Authorizes all PCAOB standards before they become effective.
- c. Can reject company filings or suspend trading of company stocks.
- d. All of the above.

50. [LO 4] Regarding the PCAOB, which of the following is INCORRECT? The PCAOB:

- a. Is responsible for oversight of audit firms engaged in the audit of public companies.
- b. Issues standards that govern audits of public companies.
- c. Is a not-for-profit entity.
- d. Has authority that is equal in power to the SEC.

51. [LO 4] The AICPA (American Institute of Certified Public Accountants):

- a. Is regulated by Congress.
- b. Reports to the PCAOB.
- c. Regulates CPAs at the state level.
- d. None of the above.

52. [LO 4] Which of the following is a current responsibility of the AICPA?

- a. Writing and grading the CPA exam that is used by the states.
- b. Issuing CPA certificates.
- c. Setting international audit standards for nonpublic companies.
- d. Writing the code of conduct that is adopted by all of the states.

53. [LO 4] The SEC requires publicly traded companies to file

- a. 10Ks that include audited quarterly financial statements and audited management reports on internal control over financial reporting.
- b. 10Qs that include audited quarterly financial statements.

- c. 10Ks that include audited annual financial statements, with or without a management report on ICFR.
- d. 10Ks that include annual financial statements, a management report on ICFR, and the audit opinions resulting from an integrated audit.

54. [LO 4] The GASB:

- a. Sets audit standards for auditors engaged in auditing not-for-profit entities.
- b. Regulates state and local governments.
- c. Set reporting standards for state and local government entities.
- d. All of the above.

55. [LO 5] Internal auditors may not perform:

- a. Audits of financial statements resulting in reports intended for management's use only.
- b. Forensic audits.
- c. Integrated audits leading to an audit opinion issued in accordance with AICPA or PCAOB standards.
- d. All of the above.

56. [LO 5] Forensic auditors:

- a. Investigate only fraud.
- b. Look for specific and detailed information.
- c. Perform engagements that can result in a standard, clean audit report.
- d. May not be CPAs.

57. [App.] A CPA firm engaged in the audit of public companies must:

- a. Have at least 5 partners.
- b. Have multiple offices across the U.S.
- c. Hire and train competent personnel.
- d. All of the above.

58. [App.] The "highest" level of a CPA firm hierarchy is:

- a. The shareholders.
- b. The partners.
- c. The managers.
- d. Both a and b.

59. [App.] To which of the following would AICPA attest standards not apply?

- a. SSARs.
- b. Elder care.
- c. Loans under TALF.
- d. Internal control for a nonpublic company.

60. [App.] Non-assurance type work performed by CPAs includes:

- a. Tax preparation.

- b. Consulting.
- c. Bookkeeping.
- d. All of the above.

61. [App.] A non-equity partner likely:

- a. Shares in all of the work for the firm.
- b. Is compensated by sharing in the profits of the firm.
- c. Has partner responsibility for work performed.
- d. All of the above.

62. [App.] Which of the following is NOT a “Big Four” firm?

- a. PwC.
- b. Grant-Thornton.
- c. Deloitte & Touche.
- d. Ernst & Young

MATCHING

63. Match the task corresponding to the correct answer by placing the number next to the correct description.

1. Auditor
2. Client/firm
3. PCAOB
4. AICPA
5. Audit Committee of the Board of Directors

TASK

- (a) Prepare the financial statements.
- (b) Design and implement the ICFR.
- (c) Make assertions.
- (d) Produce audit standards for non-public companies.
- (e) Produce audit standards for public companies.
- (f) Evaluate evidence.
- (g) Gather evidence.
- (h) Propose adjustments to the financial statements intended to correct errors identified during the audit.
- (i) Inspect the work of audit firms engaged in the audit of public companies.
- (j) Appoint the auditors.

64. Place one or more of the following terms on the line for each phrase below. You may use each term more than once or not at all.

- | | |
|------------------------|---|
| A. Procedures | L. External financial relations committee |
| B. OCBOA | M. Review engagement |
| C. Audit committee | N. SFAS |
| D. ICFR audit | O. SAS |
| E. Integrated audit | P. GAO |
| F. Evidence | Q. Fraud |
| G. AS | R. Operational auditing |
| H. Forensic accounting | S. External financial relations committee |

I. Internal auditing

T. Attest engagement

J. FASB

U. PCAOB

K. Errors

V. COSO

_____ 1. A subset of the Board of Directors that, for a public company, has direct responsibility for hiring, compensation and oversight of the external auditor.

_____ 2. An examination in which an auditor assesses and reports on the effectiveness of a company's internal controls.

_____ 3. Client-related information used by the auditor to come to an audit conclusion.

_____ 4. Using client information in engagements related to fraud, business valuation and legal disputes.

_____ 5. An accepted basis of accounting that differs from GAAP.

_____ 6. Deals only with efficiency and effectiveness issues.

_____ 7. Results in misstated financial statements.

_____ 8. Entity that has produced one of the frameworks of internal control over financial reporting that is used by management and auditors.

_____ 9. The set of audit standards that must be followed when auditing public companies.

_____ 10. An example is the activities required by the federal government for loans associated with the "Term Asset-Backed Securities Loan Facility" (TALF).

SHORT ANSWER

65. Mary Ellen Dillon is deciding between two different job offers, one from a regional CPA firm engaged in the audit of public clients and the other from a regional accounting firm who assists smaller clients with their accounting and tax work and who also performs non-public company audits. The salary is identical and Mary Ellen has come to you for advice. Provide the advantages as well as disadvantages to working for each type of firm.

Regional, Public Company Clients:

Advantage:

Regional, Non-public Company Clients:

Advantage:

Disadvantage:

Disadvantage:

66. Go to the PCAOB web site (www.pcaob.org). Find the inspection reports from the PCAOB on the work of CPA firms; choose one of the Big Four and one firm other than one of the Big Four.

- (a) Identify the firm's report you selected. What do the reports you selected state?
- (b) What recommendations do they make?
- (c) If you were the managing partner of the CPA firm that was inspected, based on the PCAOB's observations would you feel that your firm had done an adequate job performing the public company audits reported on? Justify your answer.
- (d) Would you want investors and/or clients to read the report? Why or why not?

DISCUSSION QUESTIONS FROM THE TEXTBOOK

21. (1-21, LO 2) Why do you have to be a good accountant in order to be a good auditor?
22. (1-22, LO 3) Auditors cannot change the financial statements. Explain the influence the auditor has on management's decisions regarding financial statement presentation. Also, explain your perception of the possible tension created by any power struggle inherent in the management–auditor relationship. How do you think auditors should respond when management wants the company's financial statements to be presented in a certain way but the auditor disagrees?
23. (1-23, LO 2) How do the capital markets and economy benefit as a result of all publicly-traded companies having an independent audit?
24. (1-24, LO 2) How do audits serve a “preventive” purpose?
25. (1-25, LO 3) Shareholders, management, and the Board of Directors/audit committee all benefit from an audit but are said to have different perspectives. If each group were solely responsible for the decision, would these three categories of constituents prefer to have the same set of economic events reported differently? For example, would one group benefit from more aggressive reporting, another from more conservative reporting, and so on? How might these different preferences impact reporting?”
26. (1-26, LO 3) Why does having audited financial statements bring down a company's cost of capital?

PROBLEMS FROM THE TEXTBOOK

27. (1-27, LO 2) Michael is a new employee in the financial reporting department of Goldberg Corporation, a midsize publicly-held corporation with annual revenues of \$75 million. As Goldberg Corporation prepared for its annual audit, his manager came to him to complain about the auditors. Their audit fees were so high, yet every year they never found all of the mistakes made by the staff in Goldberg Corporation. One year, he explained, they even missed a \$5,000 fraud.
Required: (a) How can Michael use the objectives of an audit to help his manager understand the value that the company receives from an audit? (b) How can Michael explain that missing a \$5,000 fraud in a company with revenues of \$75 million does not indicate that the auditors performed an ineffective audit?

28.(1-28,LO 2) Javier is an experienced, second-year staff accountant at a midsized CPA firm who has only worked on audits of large, private companies. His firm recently won a proposal for the year-end audit of a small, publicly-traded company. Javier's evaluations have indicated that he is a hard worker and value-added team player. The audit partner tells the human resources scheduler to assign Javier to the audit team of the new public company engagement. Javier finds out that his first task is to work on the audit of the internal controls over financial reporting (ICFR). Javier is excited because he knows that gaining experience on a public client is a good opportunity. However, he has only performed financial statement audits and is apprehensive about his lack of experience.

Required: How can Javier apply the components of the formal definition of auditing to the audit of ICFR?

29. (1-37, LO 3) You are a newly hired associate auditor for Praxo & Hanks, CPAs, a professional services firm that provides financial audits, integrated audits, and tax work for a variety of private and public company clients in the mid-Atlantic region of the U.S. Your first week with the firm was spent in a training program for audit staff, which was led by two of the firm's audit managers. The first day of the training program focused on understanding the responsibilities of auditors and the nature and objectives of the services provided to audit clients. Answer the following based on what you should have learned in the first day of training.

Required: (a)Distinguish between the assertions made by management in presenting financial statements and reporting on ICFR, and the statements made within an auditor's report. (b)How do management's assertions relate to audit evidence?

30. (1-33, LO 4, 5) AH Family is a large private corporation in its fortieth year of operation. When Patricia, the founder's daughter, recently became AH Family's CEO, she formulated an aggressive multinational expansion plan that will add locations in Europe and Asia. To accomplish this goal, Patricia and the Board of Directors realized its need to raise \$100 million in new capital. In order to raise such high levels of new capital, AH Family will have to go public. Currently, AH Family employs a local CPA firm to conduct yearly audits of the financial statements for its creditors. Required: (a) Identify the types of audits AH Family will have to undergo if management chooses to take the company public. (b) Identify the governing and standard-setting bodies that will affect AH Family if it chooses to become a public company. (c) Is it possible that new costs will result if the company goes public? Explain.

SOLUTIONS

TRUE/FALSE

1. F
2. T
3. T
4. F
5. T
6. T
7. T
8. F
9. F
10. T
11. F
12. T
13. F
14. F
15. F
16. F
17. T
18. F
19. F
20. T

MULTIPLE-CHOICE

21. d
22. c
23. c
24. b
25. d
26. c
27. c
28. b
29. d
30. d
31. c
32. b
33. d
34. d
35. a
36. b
37. d

- 38. d
- 39. c
- 40. c
- 41. b
- 42. d
- 43. b
- 44. b
- 45. b
- 46. c
- 47. a
- 48. c
- 49. d
- 50. d
- 51. d
- 52. a
- 53. d
- 54. c
- 55. c
- 56. b
- 57. c
- 58. d
- 59. a
- 60. d
- 61. c
- 62. b

MATCHING

- 63.
 - (a) 2
 - (b) 2
 - (c) 2
 - (d) 4
 - (e) 3
 - (f) 1
 - (g) 1
 - (h) 1
 - (i) 3
 - (j) 5

- 64.
 - 1. c
 - 2. d, e
 - 3. f
 - 4. h

- 5. b
- 6. r
- 7. k, q
- 8. v
- 9. g
- 10. t

SHORT ANSWER

65.

Regional, Public Company Clients:

Advantage:

Exposure to public companies
Exposure to financial statements audits
Exposure to ICFR audits

Regional, Non-public Company Clients:

Advantage:

Exposure to privately held companies
Exposure to financial statement audits
Exposure to tax and write up work

Disadvantage:

Will get to work with nonpublic companies
but won't see tax and write up work

Disadvantage:

Lack of exposure to public companies, and
the things that go with that, like SEC filings

66. Answer will depend on what the student finds.

SOLUTIONS TO DISCUSSION QUESTIONS FROM THE TEXTBOOK

1-21. In order to be a good auditor, you must also be a good accountant. To be an effective auditor, one must thoroughly understand the accounts and processes to be audited. Auditors need a deep understanding of financial accounting.

1-22. The auditor expresses an opinion on the financial statement presentation in the auditor's report. If there is a serious disagreement between management and the auditor with respect to whether the financial statements are a fair representation of the company's economic situation and activities, the auditor is required to render a qualified or adverse opinion in his report. Management usually needs a clean and unqualified opinion and failing to obtain one is disastrous. Because the auditor is hired and paid by management, the auditor – management relationship is fraught with potential conflicts of interest. There is also enormous legal liability for the auditor. There are many risks involved in auditing.

Because financial reporting requires the exercise of much judgment, reasonable persons often disagree on issues of presentation. Successful auditors must persuade their clients to present the financial statements in the proper manner. The auditor's professional knowledge, experience, and demeanor are necessary to manage expectations, avoid problems, and defuse tensions before they become conflicts.

1-23. Investors who have confidence in the information are more likely to participate in the world's capital markets. This participation allows our capital markets and our economy to grow. Independent audits are a necessary component of information transparency and reliability. After all, the integrity of financial reporting is the foundation upon which our public markets are built.

1-24. If management knows their financial statements will be audited and that any significant errors or improprieties will be discovered, they should be motivated to make sure the financial statements are fairly stated before they release them.

1-25. By skewing the information to one side or the other, neutrality is lost and the value and transparency of the reports is diminished. Although each of the three categories of beneficiaries has different views about the usefulness and value of financial reports, there are significant interrelationships among the various constituents. It is important for management to exercise discretion in choosing the best accounting methods and reporting techniques to serve the company as a whole, not favoring one constituency over the other.

1-26. The decreased risk of incorrect financial information tends to decrease a company's cost of capital because the pool of informed investors willing to invest is increased when audited financial statements are available.

SOLUTIONS TO PROBLEMS FROM THE TEXTBOOK

1-27

a. The objective of an audit is to produce an opinion regarding the fairness of the financial statements. As a result of this opinion, Goldberg Corporation and its constituents receive a variety of benefits from the audit. The company has access to the public markets to raise capital. The Board of Directors receives value in discharging its fiduciary responsibilities to shareholders. Even if all the small mistakes are not found, management benefits from knowing that an objective party has looked at the company, its operations and reports and that the company's information is a valid basis for making decisions. If the company's operations can be more efficient or effective the audit process likely will result in recommendations for changes.

b. The main concept appropriate for explaining why the auditor missed a \$5,000 fraud is materiality. In all but the smallest companies \$5,000 is not material to the financial statements and the auditors likely set the materiality of transactions, etc., higher than that dollar amount. Consequently, the \$5,000 fraud is likely to be missed. In a company the size of Goldberg Corporation, \$5,000 is not material.

1-28

Javier's experience in financial statement audits will help him learn and understand the audit of ICFR.

ICFR audits are similar to financial statement audits in that:

- (i) the auditor is objective
- (ii) the auditor plans the audit to obtain and examine evidence supporting management's assertions
- (iii) the auditor determines whether management's assertions correspond with supporting evidence
- (iv) the auditor issues an audit conclusion

Javier should not be anxious concerning the ICFR audit as the procedures are similar to that of a financial statement audit. The offer to join the engagement team represents a great learning experience for Javier and an opportunity to advance his career.

1-37

a. Management makes assertions about economic events and actions that affect the company, claiming that those events and actions are properly communicated through the financial statements. Management also makes assertions about the effectiveness of internal controls

underlying the company's financial reporting processes. On the other hand, the auditor's report is an independent assessment of management's assertions. Auditors must be able to evaluate management's assertions in order to prove or disprove them. If the auditor is comfortable with the assertions set forth by management, a clean audit report will be issued.

- b. The audit process focuses on objectively obtaining and evaluating evidence about management assertions. Auditors determine what information is necessary to properly account for an economic event or action, then they investigate the matter by evaluating relevant evidence to determine whether management's assertions are being met. Auditors must collect evidence from such sources as company documents and records, observations and inquiries, etc. The evidence collected must relate specifically to management's assertions about the financial statement elements and internal controls.

1-33

Required:

- a. While AH Family was not subject to any mandatory audits as a privately held corporation, it will now be subject to an Integrated Audit including an audit of the financial statements and an auditor of Internal Controls over Financial Reporting (ICFR).
- b. JH Family as a privately held corporation was subject to a audits governed by the AICPA. If JH Family chooses to go public, it will be subject to integrated audits under the Public Company Accounting Oversight Board (PCAOB), which is ultimately regulated by the Securities and Exchange Commission (SEC).
- c. Potential new costs include but are not limited to:
 - (i) The costs of a required Internal Audit department required by the Sarbanes-Oxley Act of 2002
 - (ii) The costs of an Integrated Audit which will add an audit of ICFR on top of the audit of the financial statements
 - (iii) The costs of Reviews over 10Q quarterly reports required by the SEC
 - (iv) The costs of hiring an audit firm with global capabilities to audit the new locations in Europe and Asia