

Case 1: K. Maeser, Inc: Subsequent to the issuance of our consolidated financial statements for the quarterly period ended June 30, 2016, the internal audit team identified a deficiency in the internal control over financial reporting with respect to the design and operating effectiveness of controls over the assessment of uncertain tax positions and deferred tax asset valuation allowance in accordance with ASC 740, Income Taxes. These deficiencies allowed errors to occur that were not detected in a timely manner therefore requiring a correction of certain disclosure information in the Income Taxes footnote in our consolidated financial statements for fiscal year 2015. The deficiency had no impact on our financial position, results of operations or cash flows as of and for the fiscal year 2015.

Internal audit's and management's initial evaluation is that this represents a deficiency or perhaps a significant deficiency, but not a material weakness. The logic is that there were no errors to financial statement line items and the correction of the tax footnote disclosure, while a rather large amount, was less than materiality.

Case 2: This year the external audit plan for ABC, Inc. called for specific testing of revenue recognition at four of the 10 international locations. The audit of the Mexican division identified potential accounting errors related to Company's Mexican division revenue recognition cut-off practices. Specifically, we identified instances where the Mexican division would recognize revenue prior to the date of shipment or transfer of title/ownership, which is not in accordance with US GAAP. We also found that the timing for when such errors occurred was irregular and in certain instances attributable to requests from customers that were not properly accounted for, resulting in timing differences between invoicing date and shipment date. It was determined that these errors with respect to revenue recognition occurred due to ineffective controls and not due to an intent to commit fraud.

The cutoff errors identified at the Mexican division suggest only a control deficiency as they represent less than 5% of overall consolidated audit materiality. Total revenues from the 10 international divisions represent 40% of the consolidated revenues of ABC, Inc.

Handout 3: ICFR Session

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