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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Arpita Joshi, CPA,

Respondent.

PCAOB Release No. 105-2024-030

May 7, 2024

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), the Public Company Accounting Oversight Board ("Board" or "PCAOB") is:

(1) censuring Arpita Joshi, CPA ("Joshi" or "Respondent");

(2) barring Joshi from being an associated person of a registered public accounting firm;[1] and

(3) imposing a $45,000 civil money penalty on Joshi.

The Board is imposing these sanctions on Joshi on the basis of its findings that Respondent violated PCAOB rules and standards in connection with the audits by Liggett & Webb, P.A. ("Liggett & Webb" or the "Firm") of the financial statements of Innovative Food Holdings, Inc. ("Innovative Food") for the fiscal year ended December 31, 2019 ("2019 Innovative Food Audit") and of Luvu Brands, Inc. ("Luvu") for the fiscal year ended June 30, 2020 ("2020 Luvu Audit").

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c)

[1] Joshi may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

of the Sarbanes-Oxley Act of 2002, as amended (the " Act"), and PCAOB Rule 5200(a)(1), against Respondent.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.[2]

III.

On the basis of Respondent's Offer, the Board finds that:[3]

A. Respondent

1. **Arpita Joshi** was, at all relevant times, a partner of the Firm and a certified public accountant under the laws of New York (license no. 120778) and Maine (license no. CP4777). Joshi served as the engagement partner for the 2019 Innovative Food Audit and the engagement quality review ("EQR") partner on the 2020 Luvu Audit. At all relevant times, Joshi was an "associated person of a registered public accounting firm" as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Relevant Entities

2. **Liggett & Webb, P.A.** is headquartered in Boynton Beach, Florida. Liggett & Webb was licensed to practice public accounting by the Florida Board of Accountancy (license

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[2] The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

[3] The Board finds that Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

no. AD63352).[4] Liggett & Webb is, and at all relevant times was, registered with the Board, and is a "registered public accounting firm" as that term is defined in Section 2(a)(12) of the Act and PCAOB Rule 1001(r)(i).

3. **Innovative Food Holdings, Inc.** is a Florida corporation headquartered in Bonita Springs, Florida. Its public filings disclose that it is a distributor of perishables and specialty food and food-related products to restaurants, hotels, country clubs, national chain accounts, casinos, hospitals, and catering houses. Innovative Food is, and at all relevant times was, an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

4. **Luvu Brands, Inc.** is a Florida corporation headquartered in Atlanta, Georgia. Its public filings disclose that it designs, manufactures, and markets a portfolio of consumer lifestyle brands through the company's websites, online mass merchants, and specialty retail stores worldwide. Luvu is, and at all relevant times was, an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

5. This matter concerns Joshi's violations of PCAOB rules and standards in connection with the 2019 Innovative Food Audit. As detailed below, Joshi failed to obtain sufficient appropriate audit evidence with respect to Innovative Food's goodwill and other intangible assets.

6. Additionally, Joshi violated AS 1220, *Engagement Quality Review,* by providing her concurring approval of issuance of the 2020 Luvu Audit report without performing the required EQR with due professional care.

D. Joshi Violated PCAOB Rules and Standards in Connection with the 2019 Innovative Food Audit

7. In connection with the preparation and issuance of an audit report, PCAOB rules require that registered public accounting firms and their associated persons comply with all applicable auditing and related professional standards.[5] An auditor may express an unqualified opinion on an issuer's financial statements when the auditor conducted an audit in accordance

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4 The Firm's license expired on December 31, 2023.

5 *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*. All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the audits discussed herein.

with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[6]

8. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.[7] Due professional care requires that the auditor exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.[8]

9. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion.[9] In addition, an auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.[10]

10. PCAOB standards also require auditors to evaluate whether the significant assumptions used to measure the fair value of an asset provide a reasonable basis for the fair value measurement and disclosure in the financial statements.[11] PCAOB standards further require auditors who use the work of a specialist as evidential matter in performing an audit to, among other things, "evaluate whether the specialist's findings support the related assertions in the financial statements."[12]

11. Liggett & Webb issued an audit report containing an unqualified opinion on Innovative Food's 2019 financial statements on May 14, 2020. The report was included with Innovative Food's Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission") on May 14, 2020.

12. Innovative Food disclosed in its Form 10-K for fiscal year 2019 total assets of $20,874,975, including goodwill and other intangible assets of $3,525,806. More specifically, for the intangible assets, Innovative Food disclosed goodwill in the amount of $650,243, Trade

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6 *See* AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

7 *See* AS 1015.01, *Due Professional Care in the Performance of Work*.

8 *See* AS 1015.07; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*.

9 *See* AS 1105.04, *Audit Evidence*.

10 *See* AS 2401.12, *Consideration of Fraud in a Financial Statement Audit*.

11 *See* AS 2502.26, .28, *Auditing Fair Value Measurements and Disclosures*.

12 AS 1210.12(c), *Using the Work of a Specialist*.

Name in the amount of $1,532,822, Customer Relationships in the amount of $640,422, Non-Compete Agreements in the amount of $72,355, and Internally Developed Technology in the amount of $545,964. Joshi and the engagement team assessed inherent risk, control risk, and the combined risk of material misstatement for the valuation of intangible assets as high, and they identified a significant risk related to goodwill.

13. PCAOB standards required Joshi and the engagement team to design and perform audit procedures in a manner that addressed Joshi's identification of valuation of goodwill as a significant risk,[13] and to evaluate whether Innovative Food's intangible assets were presented in the financial statements fairly, in all material respects, in conformity with the applicable financial reporting framework.[14]

14. Innovative Food performed a qualitative assessment of goodwill to determine whether it was more likely than not that the fair value of goodwill was less than the carrying amount. Innovative Food concluded that the qualitative assessment indicated that goodwill could be impaired and engaged a valuation specialist to perform a quantitative assessment.

15. Joshi and the engagement team used the report of the specialist as evidence in performing substantive procedures to evaluate the valuation of Innovative Food's goodwill as of December 31, 2019. Joshi and the engagement team, however, failed to perform procedures to evaluate whether the specialist's findings supported that valuation.[15]

16. Additionally, with respect to Innovative Food's other intangible assets, Joshi and the engagement team failed to perform any audit procedures over Innovative Food's Trade Name, Customer Relationships, Non-Compete Agreements, or Internally Developed Technology, other than tracing amounts to prior year financial statements and cross-footing to other data provided by Innovative Food.

17. As a result, Joshi and the engagement team failed to adequately test the fair value of Innovative Food's goodwill and intangible assets.[16] They failed to adequately perform substantive procedures specifically responsive to the identified significant risks over Innovative Food's goodwill,[17] and they failed to evaluate whether the specialist's findings supported the

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[13] *See* AS 2301.03, .08-.09.

[14] *See* AS 2810.30-.31, *Evaluating Audit Results.*

[15] *See* AS 1210.12(c).

[16] *See* AS 2502.26, .28.

[17] *See* AS 2301.11.

valuation of Innovative Food's goodwill.[18] They also failed to perform sufficient audit procedures related to Innovative Food's intangible assets, and failed to obtain sufficient appropriate audit evidence that Innovative Food's goodwill and other intangible assets were properly valued as of December 31, 2019.[19]

E. Joshi Failed to Appropriately Perform the EQR on the 2020 Luvu Audit

18. PCAOB standards require that an EQR be performed on all audit engagements conducted pursuant to PCAOB standards.[20] In conducting the EQR, PCAOB standards require the EQR partner to evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.[21]

19. PCAOB standards also require the EQR partner to evaluate the assessment of, and audit responses to, among other things, significant risks identified by the engagement team, including fraud risks.[22] In addition, the EQR partner is required to evaluate whether the engagement documentation that he or she reviewed in connection with the EQR indicates that the engagement team responded appropriately to significant risks, and supports the conclusions reached by the engagement team with respect to the matters reviewed.[23]

20. The EQR partner may provide concurring approval of issuance of an audit report only if, after performing the EQR with due professional care, the EQR partner is not aware of a significant engagement deficiency.[24] Among other things, a significant engagement deficiency in an audit exists when the engagement team failed to obtain sufficient appropriate audit evidence in accordance with PCAOB standards.[25]

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[18] *See* AS 1210.12.

[19] *See* AS 1105.04.

[20] *See* AS 1220.01.

[21] *See* AS 1220.09.

[22] *See* AS 1220.10.

[23] *See* AS 1220.11.

[24] *See* AS 1220.12; *see also* AS 1015.07 ("[d]ue professional care requires the auditor to exercise professional skepticism," which is "an attitude that includes a questioning mind and a critical assessment of audit evidence").

[25] *See* AS 1220.12, Note.

21. Liggett & Webb issued an audit report containing an unqualified opinion on Luvu's 2020 financial statements on June 30, 2020. The report was included with Luvu's Form 10-K filed with the Commission on October 1, 2020. Luvu disclosed in its Form 10-K for fiscal year 2020 total assets of $5,447,000 and net sales and net income of approximately $18,376,000 and $860,000, respectively. In the 2020 Luvu Audit, the engagement team identified improper revenue recognition as a significant risk and a fraud risk.

22. On the 2020 Luvu Audit, the engagement team failed to perform sufficient substantive procedures to test the occurrence and completeness of Luvu's e-commerce and wholesale revenues, which combined represented approximately 99 percent of Luvu's total revenue, to evaluate whether Luvu's revenue was recognized in the proper period and properly valued.

23. For the 2020 Luvu Audit, in response to the identified significant risk and fraud risk concerning revenue recognition, the engagement team selected a sample of 279 sales invoices. They then planned procedures to agree each sales invoice to a shipping document, and obtain evidence of cash receipts.

24. In selecting the sample, however, the engagement team failed to perform audit procedures to determine whether the population of sales invoices agreed to the shipping documents and cash receipts was recorded in the sales sub-ledger. The engagement team also failed to reconcile the sales sub-ledger to Luvu's trial balance, general ledger, or financial statements. Therefore, the engagement team failed to sufficiently test the accuracy and completeness of the population of sales invoices agreed to the shipping documents and cash receipts.[26]

25. Additionally, in the 2020 Luvu Audit, the engagement team did not obtain evidence of shipping for 179 of the 279 selected sales invoices. Therefore, the engagement team failed to obtain sufficient appropriate audit evidence that Luvu's revenue was recognized in the proper period and properly valued.[27]

26. Joshi served as the EQR partner on the 2020 Luvu Audit and provided her concurring approval of issuance of the 2020 Luvu Audit report.

[26] *See* AS 1105.10.

[27] *See* AS 1105.04.

27. During her EQR of the 2020 Luvu Audit, Joshi was aware that the engagement team identified Luvu's revenue as a significant risk. She reviewed the revenue work papers from the audit file.

28. Joshi failed to conduct the EQR in accordance with PCAOB standards by failing to properly: (1) evaluate the significant judgments the engagement team made with respect to Luvu's revenue, and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report;[28] (2) evaluate the engagement team's assessment of, and audit responses to, the significant risk they identified in the area of revenue;[29] and (3) evaluate whether the engagement documentation that Joshi reviewed indicated that the engagement team responded properly to significant risks and supported the conclusions the engagement team reached with respect to the matters reviewed related to the area of revenue.[30]

29. An EQR partner performing an EQR with due professional care, in compliance with AS 1220, should have detected the significant engagement deficiencies described above. Because Joshi did not identify the significant engagement deficiencies in the area of revenue, she failed to exercise due professional care and perform her EQR in accordance with AS 1220, and she inappropriately provided her concurring approval of issuance, in violation of PCAOB standards.[31]

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Arpita Joshi is hereby censured.

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Arpita Joshi is barred from being an "associated person of a registered public

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28 *See* AS 1220.09.

29 *See* AS 1220.10.

30 *See* AS 1220.11.

31 *See* AS 1220.09-.12; AS 1015.07.

accounting firm," as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).[32]

C. Pursuant to PCAOB Rule 5302(b), Arpita Joshi may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $45,000 is imposed on Arpita Joshi.

1. All funds collected by the PCAOB as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.

2. Arpita Joshi shall pay $22,500 within ten days of the issuance of this Order, and $22,500 within six months of the issuance of this Order, by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies Arpita Joshi as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

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[32] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Joshi. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

3. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.

4. Arpita Joshi understands that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

5. With respect to any civil money penalty amounts that Arpita Joshi shall pay pursuant to this Order, Arpita Joshi shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Arpita Joshi's payment of the civil money penalty pursuant to this Order, in any private action brought against Arpita Joshi based on substantially the same facts as set out in the findings in this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

May 7, 2024