
2018 Inspection RSM US LLP

(Headquartered in Chicago, Illinois)

October 5, 2020

PCAOB

Public Company Accounting Oversight Board

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. 104-2020-019A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2020-019)

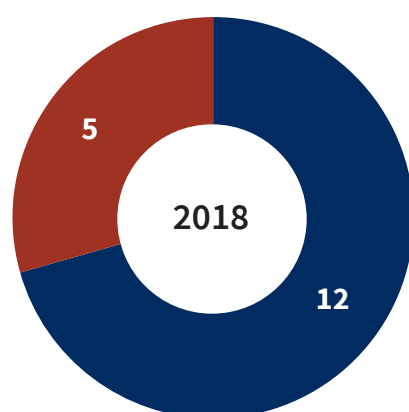
Executive Summary

Our 2018 inspection report on RSM US LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting ("ICFR"), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

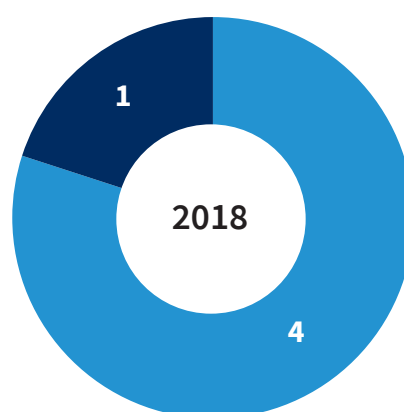
The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2018 Deficiencies Included in Part I

Five of the 17 issuer audits we reviewed in 2018 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts, business combinations, and allowance for loan losses.



■ Audits without Part I.A deficiencies
■ Audits with Part I.A deficiencies



■ Deficiencies in both financial statement and ICFR audits
■ Deficiencies in the financial statement audit only
■ Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2018 related to testing the design or operating effectiveness of controls selected for testing and testing controls over the accuracy and completeness of data and reports, and the overreliance on controls when performing substantive testing due to certain of these deficiencies.

An additional deficiency identified during the 2018 inspection that did not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appears in Part I.B, related to Form AP.

Table of Contents

2018 Inspection 3

Overview of the 2018 Inspection and Historical Data by Inspection Year..... 4

Part I: Inspection Observations 12

Part I.A: Audits with Unsupported Opinions 12

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules..... 17

Part II: Observations Related To Quality Control 18

Appendix A: Firm’s Response to the Draft Inspection Report.....A-1

2018 Inspection

During the PCAOB's 2018 inspection of RSM US LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 17 audits of issuers with fiscal years generally ending in 2017. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2018 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
 - **Part I.A:** Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.
 - **Part I.B:** Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("the Act") restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2018 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the [scope of our inspections and our inspections procedures](#).

Overview of the 2018 Inspection and Historical Data by Inspection Year

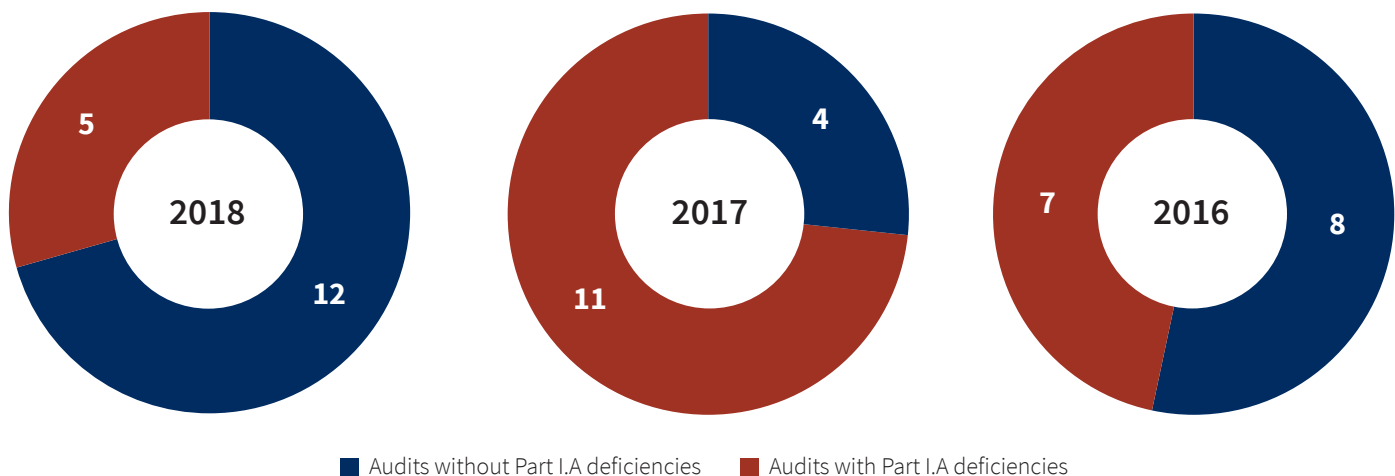
The following information provides an overview of our inspections in 2018 of the firm's issuer audits as well as data from the previous two inspections. We use a risk-based method to select audits for review and to identify areas on which we focus our inspection. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and focus areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Reviewed

	2018	2017	2016
Total audits reviewed	17	15	15
Audits in which the firm was the principal auditor	17	15	15
Integrated audits of financial statements and ICFR	12	12	10
Risk-based selections	17	15	15

Part I.A Deficiencies in Audits Reviewed

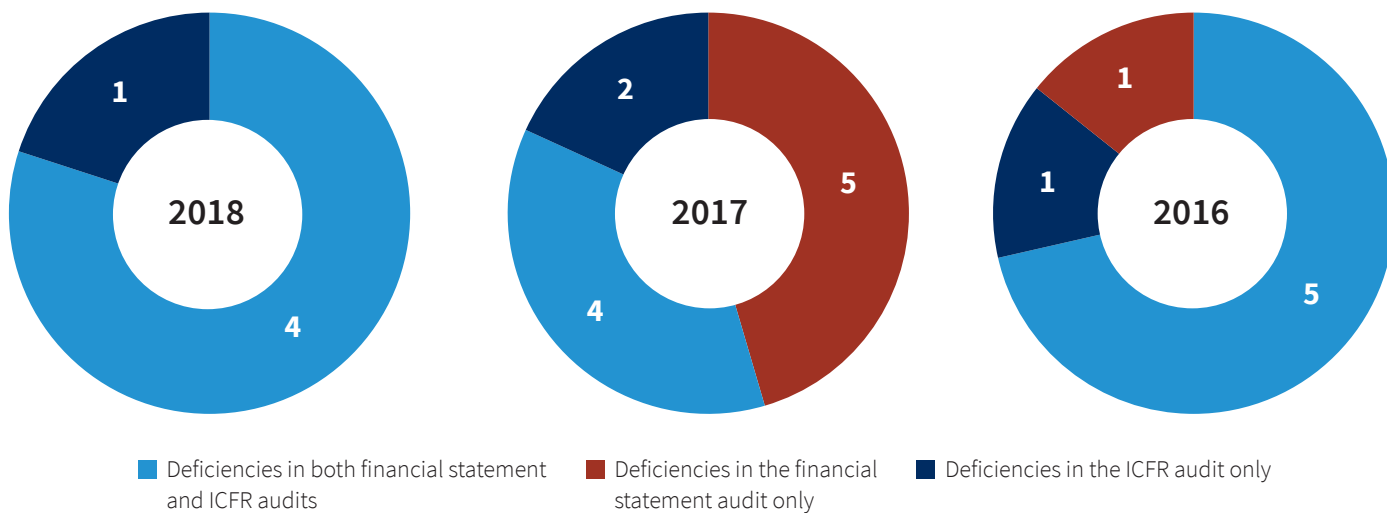
In 2018, 2017, and 2016, all audits appearing in Part I.A were selected for review using risk-based criteria.



If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during that inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer’s financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer’s public disclosures. We do not have direct access to the issuer’s management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



The following tables and graphs summarize inspection-related information, by inspection year, for 2018 and the previous two inspections. We caution any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2018	2017	2016
Did not perform substantive procedures to obtain sufficient evidence as a result of overreliance on controls (due to deficiencies in testing controls)	3	5	4
Did not perform sufficient testing of the accuracy and completeness of data and reports used in the firm's substantive testing	3	2	1
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	2	6	4

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2018	2017	2016
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	3	5	6
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports	3	4	6
Did not identify and test any controls related to a significant account or relevant assertion	3	2	5

Audit Areas Most Frequently Reviewed

This table reflects the five focus areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2018			2017			2016		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	9	3	Revenue and related accounts	10	5	Revenue and related accounts	9	3
Investment securities	6	0	Investment securities	7	2	Investment securities	9	0
Inventory	5	0	Allowance for loan losses	5	4	Allowance for loan losses	5	2
Business combinations	4	3	Business combinations	4	1	Business combinations	4	3
Allowance for loan losses	4	2	Inventory	4	0	Goodwill and intangible assets	3	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the focus areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2018		2017		2016	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	3	9	5	10	3	9
Business combinations	3	4	1	4	3	4
Allowance for loan losses	2	4	4	5	2	5
Investment securities	0	6	2	7	0	9

Revenue and related accounts: The deficiencies in 2018, 2017, and 2016 related to substantive testing of, and testing controls over, revenue and related accounts.

Business combinations: The deficiencies in 2018 and 2016 related to substantive testing of, and testing controls over, the inputs and assumptions that the issuer used to value the acquired assets. The deficiency in 2017 related to the substantive testing of the valuation of acquired inventory.

Allowance for loan losses: The deficiencies in 2018, 2017, and 2016 primarily related to testing controls over the valuation of the allowance for loan losses and the resulting overreliance on controls when performing substantive testing.

Investment securities: The deficiencies in 2017 primarily related to testing controls over investment securities.

Auditing Standards Associated with Identified Part I.A Deficiencies

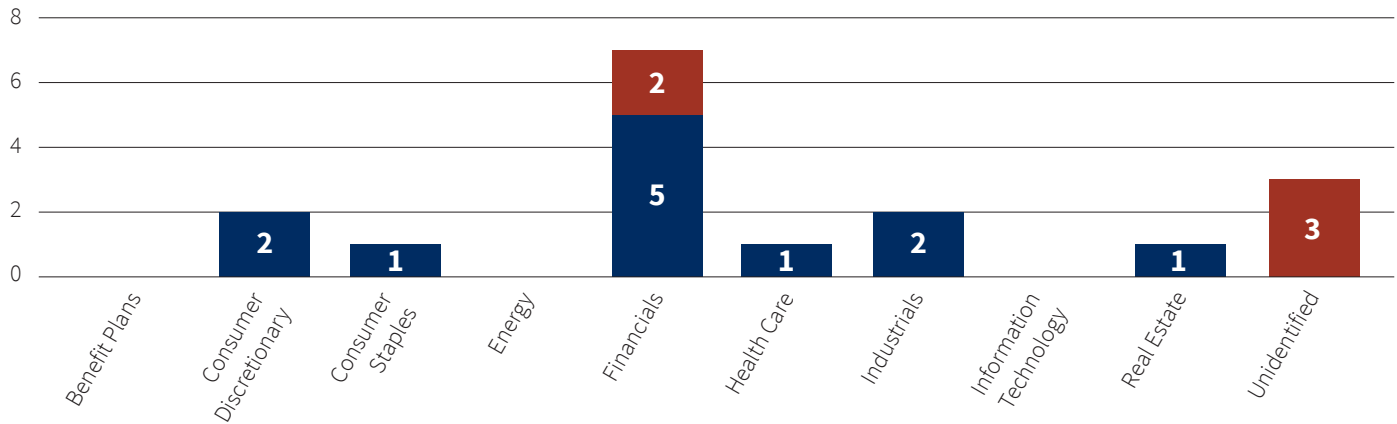
The following lists the auditing standards referenced in Part I.A of the 2018 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2018	2017	2016
<i>AS 1105, Audit Evidence</i>	2	2	2
<i>AS 1210, Using the Work of a Specialist</i>	3	0	2
<i>AS 2101, Audit Planning</i>	0	0	1
<i>AS 2201, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	19	32	25
<i>AS 2301, The Auditor's Responses to the Risks of Material Misstatement</i>	3	6	9
<i>AS 2305, Substantive Analytical Procedures</i>	1	0	2
<i>AS 2315, Audit Sampling</i>	4	9	4
<i>AS 2501, Auditing Accounting Estimates</i>	0	5	2
<i>AS 2502, Auditing Fair Value Measurements and Disclosures</i>	3	1	2
<i>AS 2605, Consideration of the Internal Audit Function</i>	0	1	0
<i>AS 2810, Evaluating Audit Results</i>	1	1	2

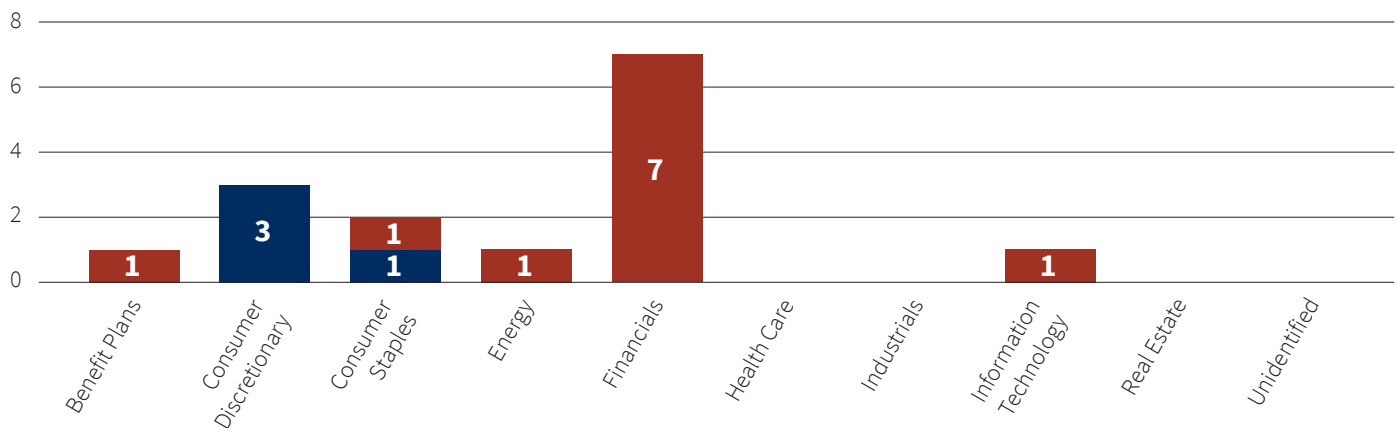
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.

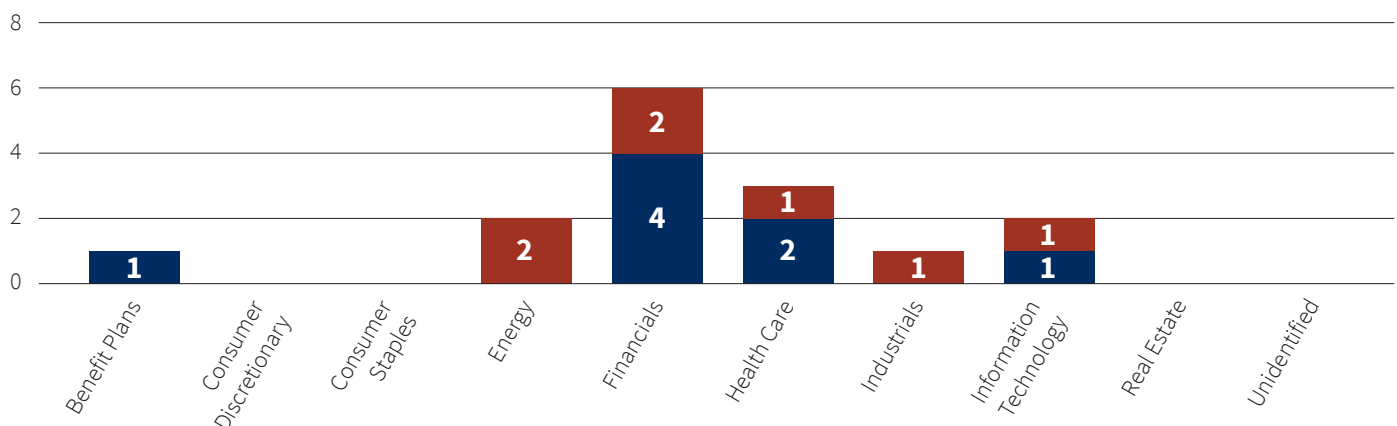
2018



2017



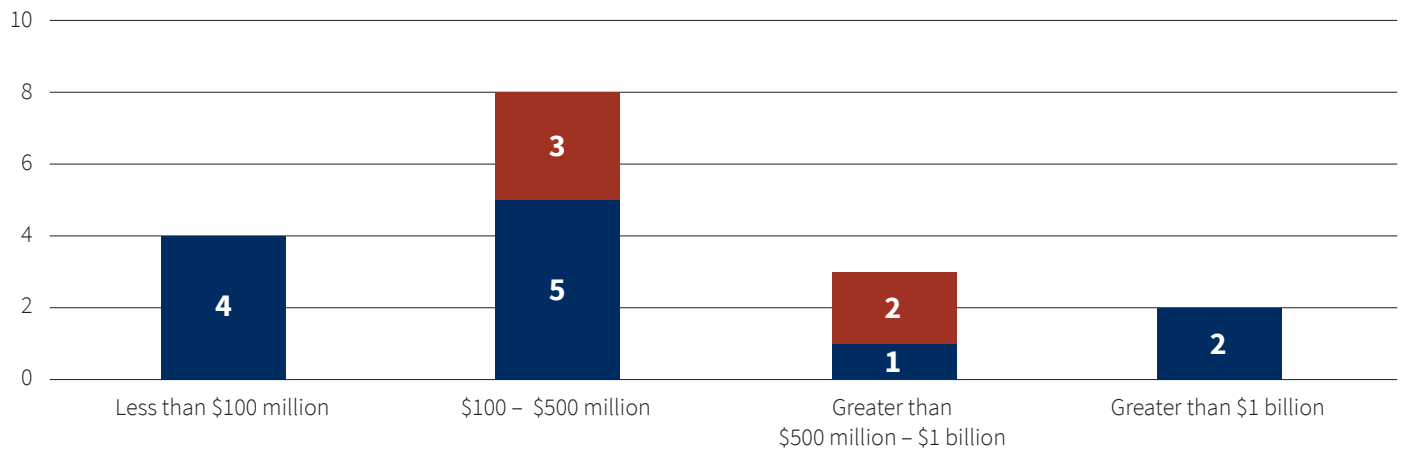
2016



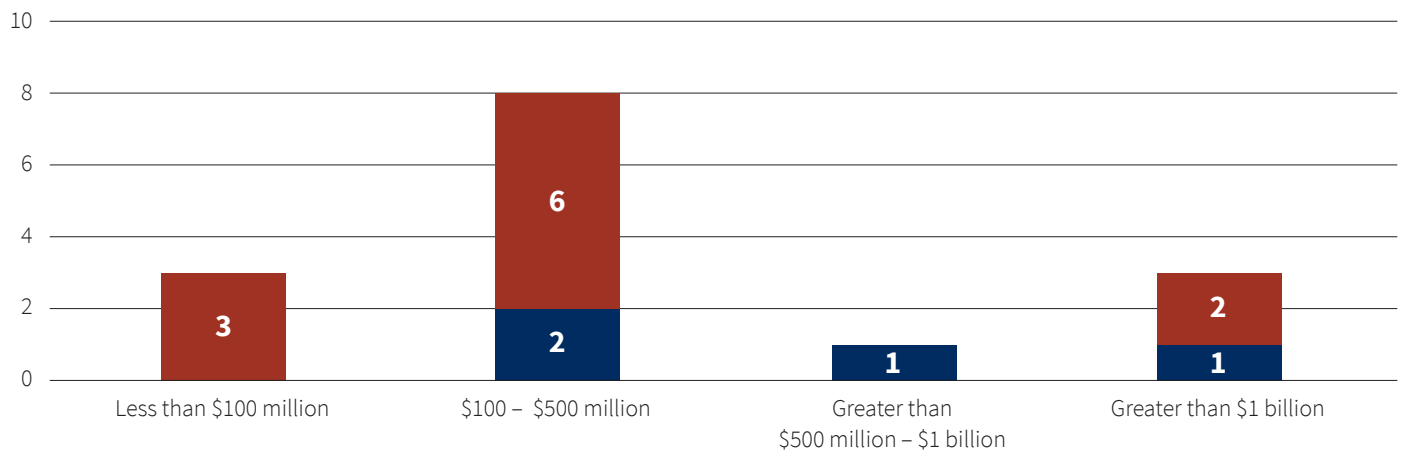
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

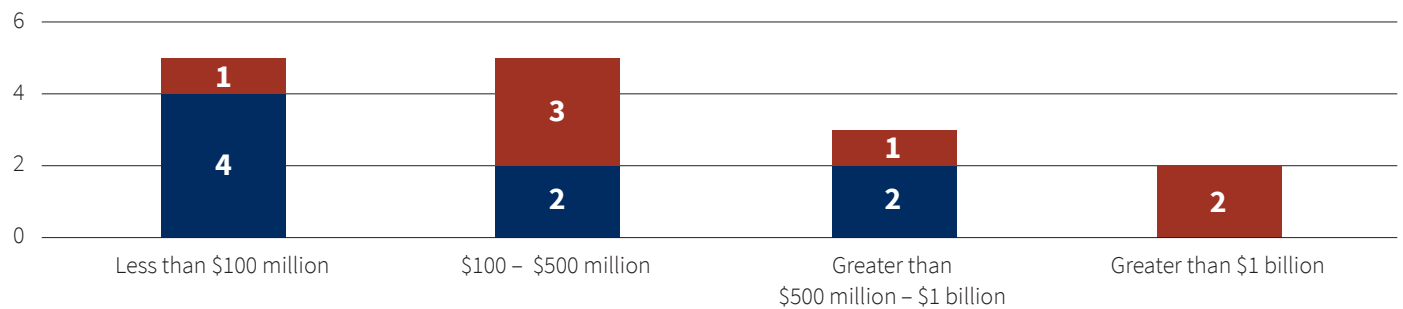
2018



2017



2016



■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where an audit deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where an audit deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR.

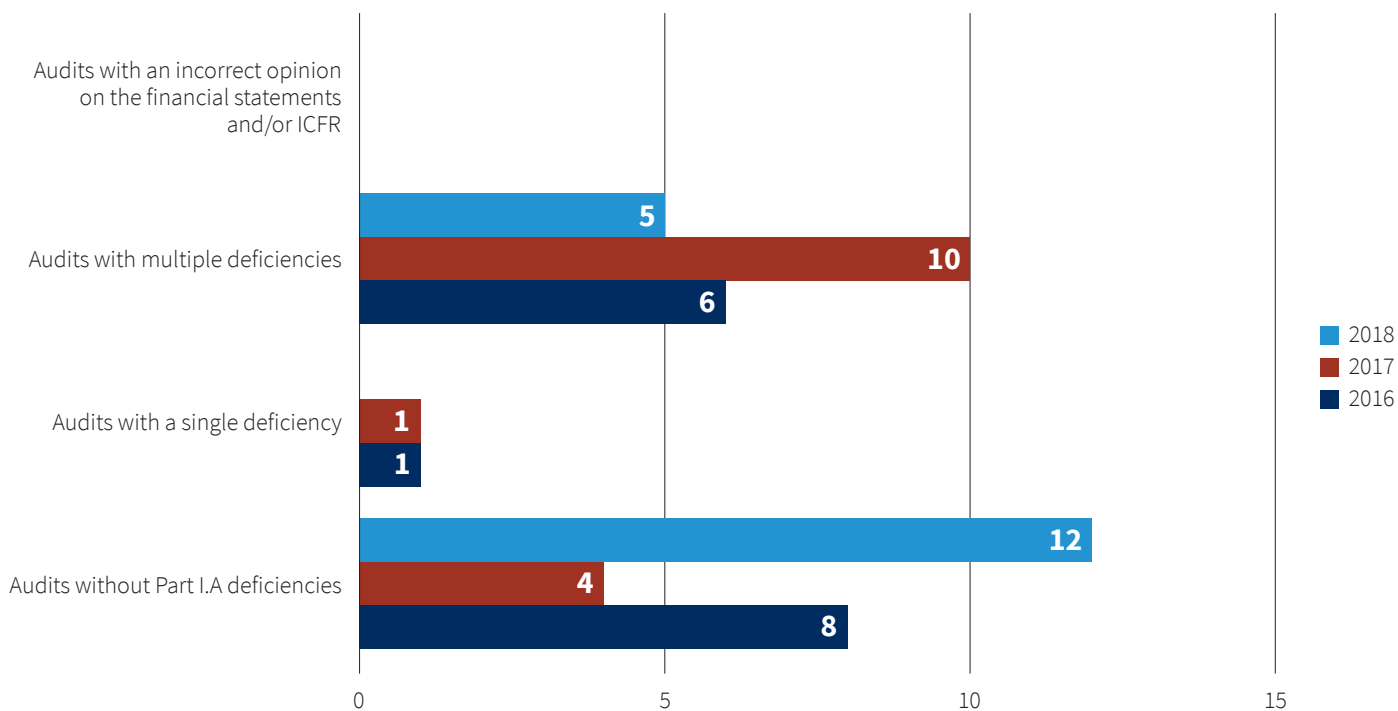
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



Part I: Inspection Observations

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, the **Allowance for Doubtful Accounts**, **Goodwill**, and **Business Combinations**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized certain revenue based on quantity and specified rates. The following deficiencies were identified:

- The firm selected for testing a control over the completeness of reported quantities that consisted of management's comparison of the quantity reported by customers to information provided by external parties. The firm did not identify and test any controls over the relevance and reliability of the information provided by the external parties that was used in this control. (AS 2201.39)
- The firm used the quantities reported by the issuer's customers in its procedures to test this revenue. The firm did not test, or in the alternative (as discussed above) sufficiently test the control over, the completeness of this data. (AS 1105.10)

- The sample sizes the firm used in certain of its substantive procedures to test this revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to the **Allowance for Doubtful Accounts**:

The firm selected for testing a control over the allowance for doubtful accounts that included management's review of the aging of accounts receivable and the calculations of the allowance. The firm did not evaluate the review procedures that the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

With respect to **Goodwill**:

The issuer engaged an external specialist to perform its annual goodwill impairment analysis. The analysis included projected cash flows for four revenue categories provided by the issuer and assumptions developed by the specialist. The following deficiencies were identified:

- The firm selected for testing a control that consisted of management's review of the annual goodwill impairment analysis prepared by the specialist. The firm did not evaluate the review procedures that the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the preparation of the projected cash flows that were provided to the specialist. (AS 2201.39)
- The firm did not sufficiently test the projected cash flows provided to the specialist because its procedures were limited to inquiring of management and comparing the projected cash flows for one revenue category to another company's historical revenue, without performing procedures to evaluate whether that company's historical results would be representative of the issuer's future results. (AS 1210.12)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses and engaged an external specialist to estimate the fair values of the acquired intangible assets. The issuer provided the specialist with financial projections and other data that were used in the valuations. The following deficiencies were identified:

- The firm selected for testing a control that included management's review of certain assumptions used in the valuations. The firm did not evaluate the review procedures that the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the preparation of the financial projections that were provided to the specialist. (AS 2201.39)
- The firm did not sufficiently evaluate the sales forecast that was provided to the specialist to value the trade name and customer relationship intangible assets because its procedures were limited to inquiring of management and comparing the forecast to the issuer's historical financial information, without performing procedures to evaluate whether the issuer's historical growth rates would be representative of the issuer's future sales growth. (AS 1210.12)
- The firm did not sufficiently evaluate the reasonableness of the royalty rate that the specialist used to value the trade name intangible assets because its procedures were limited to comparing the assumptions to industry information obtained by the specialist, without evaluating the relevance and reliability of the source of that information. (AS 2502.26, .28, and .31)
- The firm did not evaluate whether the attrition rates that the specialist used to value the customer relationships intangible assets reflected (1) future retention of the issuer's long-term relationships with its largest customers and (2) those customers' proportionate share of historical sales. (AS 2502.26, .28, and .31)

- The firm did not evaluate the reasonableness of certain assumptions that the issuer provided to the specialist that the specialist used to estimate the fair value of other acquired intangible assets. (AS 1210.12)
- The firm did not evaluate the issuer's conclusion that separately identifiable intangible assets did not exist related to the revenue expected to be derived from the existing user base of each acquired business in conformity with FASB ASC Topic 805, *Business Combinations*. (AS 2810.30)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Business Combinations**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized revenue from services provided to customers based on certain agreed-upon specifications ("service revenue"). The following deficiencies were identified:

- The firm selected for testing certain automated controls that were designed to recognize one type of service revenue once certain information was manually entered into the issuer's system. The firm did not identify and test any controls over the accuracy and completeness of the information that was manually entered into the issuer's system. (AS 2201.39)
- The firm selected for testing a control that included management's review of billing information for the service revenue discussed above. The firm did not evaluate the review procedures that the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)
- The firm did not identify and test any controls over another type of service revenue. (AS 2201.39)
- The firm selected a sample of invoices to perform its substantive testing of both types of service revenue. For certain of the items selected, the firm compared the invoice to a system-generated activity report of service by customer to determine whether the service had been provided in accordance with the customer's order specifications. The firm did not test, or in the alternative test controls over, the accuracy and completeness of the activity report. (AS 1105.10) For the remaining items selected, the system-generated activity report was not relevant to determining whether the service had been provided, as it was a different type of service, and the firm did not otherwise obtain support to test the occurrence of revenue for these selections. (AS 2315.25)
- The sample sizes the firm used in certain of its substantive procedures to test both types of service revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The issuer also recognized revenue from fees associated with granting certain rights to its customers ("contract revenue"). The firm identified a control deficiency over this revenue related to a lack of segregation of duties and concluded that it was a significant deficiency based on the firm's testing of compensating controls that included management's review of contract revenue and financial reporting checklists. The firm did not evaluate the review procedures that the control owner performed, including the criteria that the control owner used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.68)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses and engaged an external specialist to perform a valuation of the acquired intangible assets. The specialist determined that certain acquired agreements with the issuer's affiliates had no value. The firm did not sufficiently evaluate the reasonableness of the conclusions reached by the specialist because its procedures were limited to verifying that the issuer's accounting treatment was consistent with (1) the accounting treatment used in prior business combinations and (2) certain audit evidence from more than ten years prior to the current year's acquisitions. (AS 2502.26, .28, and .31)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Asset Retirement Obligations ("ARO")**.

Description of the deficiencies identified

The issuer used an information technology ("IT") application to initiate, process, and record revenue. This IT application also generated information that the issuer used to estimate the ARO. The firm did not identify and test any controls over the accuracy of customer information that was manually entered into the application. (AS 2201.39)

With respect to **Revenue**:

The firm selected for testing controls that consisted of management's review of system-generated reports used to recognize revenue. The firm did not test, beyond inquiry, any controls that addressed the accuracy and completeness of these system-generated reports used in the performance of these controls. (AS 2201.39)

The firm did not test, or in the alternative, test controls over, the accuracy and completeness of data the firm used to develop the expectation used in the performance of its substantive analytical procedures to test revenue. (AS 2305.16)

With respect to **ARO**:

The firm selected for testing controls that consisted of management's review of system-generated reports used to recognize ARO. The firm did not test, beyond inquiry, any controls that addressed the accuracy and completeness of these system-generated reports used in the performance of these controls. (AS 2201.39)

Issuer D – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to the **Allowance for Loan Losses ("ALL")**.

Description of the deficiencies identified

The firm concluded that a control over the loan officers' annual credit review ("ACR") of the reasonableness of assigned loan grades was deficient because certain of the ACRs were not completed as of the end of the year for commercial loan relationships. The firm concluded that it represented a significant deficiency after determining the percentage of noncompliance of ACRs and identifying and testing two compensating controls that consisted of a credit monitoring ("CM") control and an independent loan review over certain commercial loan relationships. The firm did not sufficiently evaluate the severity of the control deficiency due to the following:

- The firm used the work of internal audit ("IA") to test the CM control. The firm did not evaluate IA's identification of several instances in which borrower financial information obtained for use in the CM control was not analyzed by the control owners. (AS 2201.68) In addition, the firm selected loan relationships, which had ACRs, and

independently tested the CM control. The firm did not perform procedures to determine whether the CM control operated for the selected loans after the ACRs were performed, which would be the only way this compensating control could have mitigated the ACR deficiency identified. (AS 2201.68)

- The firm did not test whether the CM control operated effectively over the population of loans for which a required ACR was not performed. (AS 2201.68)
- The sample size the firm used to test the second compensating control was designed assuming a certain level of evidence the firm planned to obtain from testing the ACR control over assigned loan grades. Due to the identified control deficiency in the ACR control, the ACR control tested did not provide the planned level of evidence. As a result, the sample size the firm used to test the second compensating control was too small to provide the necessary evidence about its operating effectiveness. (AS 2201.68)

The sample sizes the firm used in certain of its substantive procedures to test the ALL were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

Issuer E – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the ICFR audit related to the **ALL** and a **Business Combination**.

Description of the deficiencies identified

With respect to the **ALL**:

The issuer's ALL included a general reserve comprised of a quantitative component related to historical losses and a qualitative component related to various environmental factors. The firm selected for testing controls over the ALL that consisted of management's and a committee's review and approval of the ALL. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the reasonableness of the assumptions used to determine the qualitative component of the ALL. (AS 2201.42 and .44)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The firm selected for testing a control that consisted of management's review of the assumptions and related supporting documentation used in the valuation of assets acquired and liabilities assumed. The firm did not evaluate the review procedures that the control owners performed, including the criteria that the control owners used to identify items for follow up and whether those items were appropriately resolved. (AS 2201.42 and .44)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the area below was not reviewed on every audit inspected.

We identified the following deficiency:

In two of 17 audits reviewed, the firm filed its report on Form AP after the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Testing Controls

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel with respect to testing controls will meet the requirements of AS 2201 and AS 2301. (QC 20.03 and .17)

The inspection team identified deficiencies in the firm's testing of controls... that included a review element.

* * * *

Addressing the concerns and monitoring the effects of the actions taken regarding testing controls are critical because (1) the results of these procedures are used to support the firm's opinion on the effectiveness of ICFR and (2) control reliance is often used as the basis for modifying the nature, timing, and extent of substantive testing in audits of financial statements.

* * * *

Testing Controls that Include a Review Element

In three audits,¹ all of which are included in Part I.A, the firm did not sufficiently evaluate whether controls that it selected for testing that included a review element operated at a level of precision that would prevent or detect material misstatements because the firm did not evaluate the review procedures the control owners performed, including instances in which the firm did not evaluate (1) the criteria used to identify items for follow up and (2) the resolution of such items.

* * * *

¹ Issuers A, B, and E

Supervision of the Audit

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the supervisory activities, including reviews of audit work, performed by the firm's engagement partners will meet the requirements of AS 1201. (QC 20.03 and .17)

In five audits,² all of which are included in Part I.A, the inspection team identified one or more audit deficiencies in areas that the engagement partner should have identified and appropriately addressed but did not. In all of these audits, the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In three audits,³ all of which are included in Part I.A, the inspection team identified one or more audit deficiencies in an area that the EQR partner was required to evaluate. In all of these audits, the EQR partner did not identify and appropriately address a deficiency in an area of significant risk, including in some cases a fraud risk.

* * * *

² Issuers A, B, C, D, and E

³ Issuers A, B, and E

Appendix A: Firm's Response to the 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, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

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. 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.



RSM US LLP

1 South Wacker
Suite 800
Chicago, IL 60606

September 4, 2020

Mr. George Botic
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to Part I of the Public Company Accounting Oversight Board (PCAOB) Draft Report on
2018 Inspection of RSM US LLP

Dear Mr. Botic:

On behalf of RSM US LLP, we are pleased to provide our response to Part I of the PCAOB's Draft Report on the 2018 Inspection of RSM US LLP dated August 4, 2020 ("Draft Report").

We have thoroughly evaluated the matters described in Part I of the Draft Report and have taken appropriate actions to address the findings in accordance with PCAOB rules and auditing standards and our policies.

We support the PCAOB's inspection process and believe that it helps us improve the quality of our audit engagements. RSM US LLP is committed to using the inspection comments and observations to improve our system of quality control. We have a long history of audit quality founded on our commitment to integrity, objectivity and excellence.

We appreciate the opportunity to provide our response to the Draft Report and remain committed to working with the PCAOB to improve audit quality.

Sincerely,

Joseph Adams
Managing Partner and Chief Executive Officer

Joel Shamon
National Audit Leader

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

