

---

# 2019 Inspection RBSM LLP

(Headquartered in McLean, Virginia)

July 28, 2021

**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. 104-2021-146A**

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-146)

# Table of Contents

2019 Inspection ..... 2

Overview of the 2019 Inspection and Historical Data by Inspection Year ..... 3

Part I: Inspection Observations ..... 5

Part I.A: Audits with Unsupported Opinions ..... 6

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules ..... 10

Part II: Observations Related To Quality Control ..... 11

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

## 2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of RBSM LLP, we assessed the firm’s compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review seven audits of issuers with fiscal years generally ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm’s system of quality control.

## 2019 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. In certain situations we may select all of the firm’s issuer audits for review.

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 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm's issuer audits as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Reviewed

	2019	2017
<b>Firm Data</b>		
<b>Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures</b>	66	89
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	6	6
<b>Audits Reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	7	9
<b>Audits in which the firm was the principal auditor</b>	7	9
<b>Integrated audits of financial statements and internal control over financial reporting ("ICFR")</b>	1	2
<b>Audits with Part I.A deficiencies</b>	6	6

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 may include 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 the current inspection. If a firm does not take

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

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.

Our 2019 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. 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.

2019		2017	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	6	Revenue and related accounts	9
Long-lived assets	4	Inventory	2
Goodwill and intangible assets	3	Goodwill and intangible assets	2
Cash and cash equivalents	2	Leases	1
Equity and equity-related accounts	1	Financial reporting	1

# Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, 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, if any, 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 Sarbanes-Oxley Act ("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. Section 104(g)(2) of 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.

## 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 a 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 a 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. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

### 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.



# 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 – Industrials

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations** and **Revenue and Accounts Receivable**.

#### Description of the deficiencies identified

With respect to **Business Combinations**:

The issuer acquired businesses with contingent equity consideration arrangements. The firm did not identify and appropriately address a departure from GAAP related to the issuer's classification of the contingent consideration as equity rather than liabilities as required by FASB ASC Topic 815, *Derivatives and Hedging*. (AS 2810.30)

Unrelated and prior to our review, the issuer reevaluated its accounting treatment for the contingent consideration and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements and the firm revised and reissued its report on the financial statements.

With respect to **Revenue and Accounts Receivable**:

For revenue transactions and accounts receivable selected for substantive testing, the firm did not examine the underlying source documents. (AS 2301.08)

The firm did not perform sufficient revenue cutoff procedures because the firm's testing was limited to sales transactions recorded on one date and shipped by one carrier. (AS 2301.08)

The firm did not sufficiently evaluate the reasonableness of the issuer's allowance for doubtful accounts because it did not evaluate (1) the appropriateness of the issuer's method for determining the reserve and (2) whether the recorded reserve was determined in accordance with that method. (AS 2501.07)

## Issuer B – Energy

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Long-Lived Assets** and **Equity and Equity-Related Transactions**.

### Description of the deficiencies identified

With respect to **Long-Lived Assets**:

Long-lived assets were assessed as having a significant risk. The firm relied on control testing performed by management to assess the operating effectiveness of certain controls over long-lived assets. A member of management who performed the control testing was also the control owner of the controls selected for testing. The firm did not evaluate the objectivity of the member of management who performed the control testing and whether its reliance on management's control testing work was appropriate. (AS 2201.18; AS 2605.10)

The firm selected for testing a control related to management's review and approval of purchases of long-lived assets. The firm did not evaluate the specific review procedures the control owner performed to review and approve account codes assigned to purchases. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls that addressed the completeness of the purchase invoices used in the operation of the control. (AS 2201.39)

The firm selected for testing a control related to management's quarterly review of a long-lived assets schedule intended to assess whether changes in the long-lived assets balances are reasonable. The firm did not identify and test any controls over the accuracy and completeness of the long-lived assets schedules used in the operation of the control. (AS 2201.39)

With respect to **Equity and Equity-Related Transactions**:

The issuer engaged an external service provider to provide transfer agent services and subscription agent services. The firm did not test any of the complementary user controls described in the service auditor's report for the service provider. (AS 2201.B22)

The firm selected for testing a control related to management's review of equity and equity activity schedules, which were derived from reports provided by the service provider. The firm did not (as discussed above) sufficiently test controls over the accuracy and completeness of the information the issuer used in the operation of the control. (AS 2201.39)

The firm used data and reports from the service provider in its substantive testing of equity but did not test, or (as discussed above) sufficiently test controls over, the completeness of the data and reports. (AS 1105.10)



## Issuer C

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue, Long-Lived Assets, and Inventory**.

### Description of the deficiencies identified

With respect to **Revenue**:

The issuer's revenue processes were highly automated, with transactions being initiated, processed, and recorded by multiple information-technology ("IT") systems. The firm used sales, payment processing, and cash receipt data generated or maintained by the IT systems in its substantive revenue testing. However, the firm did not test, or in the alternative, identify and test any controls over, the completeness and accuracy of the data. (AS 1105.10)

For its substantive revenue testing, the firm selected transactions from the prepaid deposits and deferred revenue populations as of the end of the year under audit. The firm did not perform any substantive procedures to test transactions for which revenue had been recognized during the year. (AS 2301.08)

With respect to **Long-Lived Assets**:

The firm did not evaluate whether the issuer considered in its impairment analysis certain impairment indicators, including recurring operating losses, net losses, negative cash flows from operations, and cumulative net losses since inception of the issuer. (AS 2501.07; AS 2810.03)

With respect to **Inventory**:

The firm did not (1) obtain an understanding of how the issuer developed its inventory reserve and (2) perform procedures to test the inventory reserve, beyond inquiry of management. Further, the firm did not evaluate the effects of an impairment charge recorded by the issuer on the valuation of other similar assets in inventory. (AS 2501.07; AS 2810.03)

Certain inventory representing a significant proportion of current assets was held by an outside custodian. The firm did not perform sufficient procedures to test the existence of this inventory because it limited its procedures to confirming the quantities of this inventory with the custodian. (AS 2510.14)

## Issuer D – Information Technology

### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**.

### Description of the deficiencies identified

In performing its substantive procedures of the issuer's revenue, the firm did not sufficiently evaluate whether (1) the issuer's arrangements with a third party represented a contract with an identifiable customer and (2) the issuer's performance obligations should be evaluated jointly or separately, in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). (AS 2810.30)

The firm used certain price and quantity information from outside sources in its substantive testing of revenue but did not perform any procedures to evaluate the relevance and/or reliability of such information. (AS 1105.04 and .06; AS 2502.40)

In its analytical procedures over revenue, the firm used data from the issuer to develop its expectations but did not test the accuracy and completeness of the data. (AS 2305.16) In addition, the firm did not (1) evaluate the plausibility and predictability of the relationship among the data used in developing the revenue expectations, (2) establish thresholds for investigating differences from expectations, and (3) perform procedures to evaluate differences identified, beyond inquiries of management. (AS 2305.13, .14, .20, and .21)

With respect to service agreements with other parties, the issuer prepared monthly schedules of its revenue earned from those agreements. The firm did not test the accuracy and completeness of certain data included in such schedules. (AS 1105.10) In addition, the firm did not evaluate the inconsistency of certain data between the schedules, the service agreements, and the financial statement disclosures. (AS 2810.03)

## Issuer E – Health Care

### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Intangible Assets**.

### Description of the deficiencies identified

The issuer engaged a specialist to assist in its impairment analysis of its finite-lived intangible assets by determining the fair value of the assets. The firm did not evaluate the reasonableness of the assumptions used by the issuer-engaged specialist in determining the fair value of the assets. (AS 2502.26 and .28) In addition, the firm did not test the cash flow projections the issuer provided to the issuer-engaged specialist. (AS 1210.12)

## Audits with a Single Deficiency

### Issuer F

### Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**.

### Description of the deficiency identified

The firm did not test, or in the alternative, identify and test any controls over, the completeness and accuracy of a management report that the firm used in its substantive testing of revenue. (AS 1105.10)

## 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 necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

We identified the following deficiencies:

In the seven audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

## 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 Revenue

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 to test revenue will meet the requirements of AS 1105, AS 2301, AS 2305, AS 2502, and AS 2810. (QC 20.03 and .17)

In three audits,<sup>3</sup> which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of revenue.

\* \* \* \*

### Testing Estimates, Including Fair Value Measurements

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 to test estimates will meet the requirements of AS 1210, AS 2501, AS 2502, and AS 2810. (QC 20.03 and .17)

In three audits,<sup>4</sup> which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of estimates, including the evaluation of contradictory evidence.

\* \* \* \*

---

<sup>3</sup> Issuers A, C, and D

<sup>4</sup> Issuers A, C, and E

## Reliance on Data and Reports

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 to establish a basis for reliance on data or reports will meet the requirements of AS 1105 \* \* \* \*. (QC 20.03 and .17)

\* \* \* \* [T]he inspection team identified deficiencies related to unwarranted reliance on data and reports. In three \* \* \* \* audits,<sup>5</sup> the firm did not test, or in the alternative, test controls over, the accuracy and/or completeness of certain data and reports that it used in its substantive testing. \* \* \* \*

## Communications with Audit Committees

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 1301. (QC 20.03 and .17)

In seven audits,<sup>6</sup> the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to the significant risks identified through its risk assessment procedures.

## 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 six audits,<sup>7</sup> all of which are included in Part I.A, the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In these audits, the EQR partner did not identify a deficiency in an area of significant risk, including in some cases a fraud risk.

\* \* \* \*

---

<sup>5</sup> Issuers C, D, and F

<sup>6</sup> Issuers A, B, C, D, E, F, and G

<sup>7</sup> Issuers A, B, C, D, E, and F

# 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.





1360 Beverly Road  
Suite 305  
McLean, VA 22101  
703.448.9200  
703.448.3515/ Fax  
[www.rbsmllp.com](http://www.rbsmllp.com)

April 23, 2021

Mr. George Botic  
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 Draft Report on the 2019 Inspection of RBSM LLP

Dear Mr. Botic:

We appreciate this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2019 inspection of RBSM LLP. We support the PCAOB's inspection process and their goal of improving audit quality.

Since the completion of these audits, which were principally related to calendar year-end 2018 engagements, the Firm has implemented a number of significant actions focused on improving audit quality.

We have evaluated each of the matters described in Part I of the draft Report and have taken appropriate actions under both PCAOB standards and our policies, including steps we considered necessary to comply with AS 2901, Consideration of Omitted Procedures After the Report Date, and where applicable, AS 2905, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.

We remain committed to improving our audit performance and our underlying quality control systems.

We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Sincerely,

*RBSM LLP*

New York | Washington, DC | California | Nevada | Kansas  
China | India | Greece  
Member of ANTEA International with offices worldwide

