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# 2019 Inspection PKF O'Connor Davies, LLP

(Headquartered in New York, New York)

August 16, 2021

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# 2019 Inspection

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

We selected for review two audits of issuers, one with a fiscal year ending in 2019 and one with a fiscal year ending 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	2016
<b>Firm Data</b>		
<b>Total issuer audit clients in which the firm was the principal auditor at the outset of the inspection procedures</b>	11	17
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	5	5
<b>Audits Reviewed</b>		
<b>Total audits reviewed<sup>2</sup></b>	2	3
<b>Audits in which the firm was the principal auditor</b>	2	3
<b>Integrated audits of financial statements and internal control over financial reporting ("ICFR")</b>	2	1
<b>Audits with Part I.A deficiencies</b>	2	1

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

<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.

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 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.

## 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		2016	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	2	Revenue and related accounts	2
Long-lived assets	2	Long-lived assets	1
Business combinations	2	Business combinations	1
		Goodwill and intangible assets	1
		Investment securities	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) and industry sector. 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 – Real Estate

##### Type of audit and related areas affected

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

##### Description of the deficiencies identified

With respect to **Revenue**:

The firm did not (1) obtain an understanding of the likely sources of potential misstatement of revenue (AS 2201.34); (2) identify and test process level controls over the issuer's revenue (AS 2201.39); and (3) test the operating effectiveness of the issuer's information technology general controls ("ITGCs") that it had identified and tested for design effectiveness. (AS 2201.44)

The sample size the firm used in a substantive procedure over one category of revenue was too small to achieve the planned objective for the test because it used the methodology for determining the sample size for a test of controls and did not consider factors relevant to determining the sample size for its substantive testing. (AS 2315.16, .23, and .23A) In addition, the sample size the firm used in a substantive procedure to test another category of revenue was too small to provide sufficient appropriate audit evidence because the procedure was designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18 and .37; AS 2315.19, .23, and .23A)

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

The firm selected for testing certain controls over various reviews of long-lived assets. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS

2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of data and reports that were used in the performance of these controls. (AS 2201.39)

The firm did not perform sufficient substantive procedures to test transfers of the long-lived assets between asset categories because it tested transfers for one quarter, which did not constitute audit sampling and, therefore, the testing results could not be projected to the population of transfers during the year. (AS 2315.24) In addition, the firm did not test, or test controls over, the accuracy and completeness of documents used in testing the transfer of long-lived assets. (AS 1105.10)

The firm did not test, or test the controls over, the accuracy and completeness of data and reports used in its testing of long-lived assets for impairment. (AS 1105.10; AS 2501.11)

The firm did not test the fair value of the purchase price allocations to one asset category. (AS 2502.15)

## Issuer B – Real Estate

### Type of audit and related areas affected

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

### Description of the deficiencies identified

With respect to **Revenue**:

The firm selected for testing controls over reviews of revenue reconciliations. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of data and schedules that were used in the performance of these controls. (AS 2201.39)

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

The firm selected for testing controls over the review of the issuer's roll-forward for long-lived assets. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of data and schedules that were used in the performance these controls. (AS 2201.39)

## 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 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 two audits reviewed, the firm did not communicate to the issuer's audit committee all of 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 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 to test controls will meet the requirements of AS 2201. (QC 20.03 and .17)

In two audits,<sup>3</sup> which are included in Part I.A, the inspection team identified deficiencies related to the firm's (1) identifying and testing of controls that addressed the risks of misstatement, (2) identifying and testing of controls over the accuracy and completeness of information used in the operation of a control, and (3) testing of controls that included a review element.

\* \* \* \*

### 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 two audits,<sup>4</sup> both 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.

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<sup>3</sup> Issuers A and B

<sup>4</sup> Issuers A and B

# Fraud Procedures

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will perform all of the procedures necessary to comply with AS 2201\* \*  
\* \* (QC 20.03 and .17)

\* \* \* \*In one \* \* \* \* audit\* \* \*,<sup>5</sup> the firm \* \* \* \* did not (1) evaluate the review procedures that the control owners performed over journal entries, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved; (2) identify and test any controls over the accuracy and completeness of data used in the operation of the journal entry review control \* \* \* \*.

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<sup>5</sup> Issuer A

# 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.



March 4, 2021

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 1 of Draft Report on 2019 Inspection of  
PKF O'Connor Davies, LLP

Dear Mr. Botic:

On behalf of PKF O'Connor Davies, LLP (the Firm), we are pleased to provide our response to Part 1 of the PCAOB's Draft Report on the 2019 Inspection of PKF O'Connor Davies, LLP.

We understand the importance of these inspections and continuously strive to conduct our practice in accordance with all the promulgated standards applicable to our profession, not only because we must, but also because we are committed to excellence.

We have evaluated the comments identified by the PCAOB inspection team in Part 1 of the Draft Report and, as we have after every inspection, we carefully considered the matters brought to our attention, and have taken actions to address these matters in accordance with PCAOB standards, and to enhance our internal policies and procedures as part of our commitment to the highest standards of audit quality.

We wish to thank your staff for their professional, responsive and courteous conduct before, during and after the inspection. The triennial inspection is an important element of the Firm's process of ongoing improvement as we continually strive to improve the quality of our practice. We look forward to working with the PCAOB in the future.

Sincerely,

*PKF O'Connor Davies, LLP*

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