2019 Inspection Dylan Floyd Accounting & Consulting

(Headquartered in Newhall, California)

September 21, 2021

PCAOB

Public Company Accounting Oversight Board

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

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. 104-2021-175A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2021-175)

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2019 Inspection

During the Public Company Accounting Oversight Board ("PCAOB")'s 2019 inspection of Dylan Floyd Accounting & Consulting, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review one audit of an issuer with a fiscal year ending in 2018. For the 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

The following information provides an overview of our inspection in 2019 of the firm's issuer audits, which was our first inspection of this firm. 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
Firm Data	
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	8
Total engagement partners on issuer audit work[1]	1
Audits Reviewed	
Total audits reviewed[2]	1
Audits in which the firm was the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting ("ICFR")	0
Audits with Part I.A deficiencies	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 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.

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[1] 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.

[2] 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.

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.

In connection with our 2019 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 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	
Audit area	**Audits reviewed**
Revenue and related accounts	1
Business combinations	1
Goodwill and intangible assets	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.

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

Issuer A – Consumer Staples

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not identify, and appropriately address, a departure from GAAP related to the omission of disclosures required by FASB ASC Topic 235, *Notes to Financial Statements*, and FASB ASC Topic 606, *Revenue from Contracts with Customers*, including the issuer's accounting policy for recording revenue in accordance with FASB ASC Topic 606; qualitative and quantitative information about its contracts with customers, the significant judgments, and changes in judgments made in applying the guidance in FASB ASC Topic 606 to those contracts; and any assets recognized from the costs to obtain or fulfill a contract with a customer. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated its disclosures related to revenue 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.

The firm did not sufficiently test revenue because it limited its procedures to comparing sales to cash deposits, and did not evaluate whether all performance obligations were satisfied prior to the recognition of revenue. (AS 2301.08)

With respect to an **Acquisition**:

The issuer acquired a business during the year. The issuer recorded the transaction as a business combination, including recording goodwill, but disclosed that the transaction had been accounted for as an asset acquisition. The firm did not identify and evaluate the effect on the issuer's financial statements of a GAAP departure related to either the issuer's accounting treatment or disclosure of this transaction. Specifically, the firm did not evaluate whether the acquisition met the conditions to be accounted for as a business combination or asset acquisition in conformity with FASB ASC Topic 805, *Business Combinations.* (AS 2810.30 and .31)

The issuer recorded certain acquired intangible assets, inventory, and fixed assets. The firm did not test certain assumptions used by external specialists to estimate the fair values of the acquired intangible assets and inventory. (AS 2502.26 and .28) The firm also did not test issuer-provided data used by the external specialist to estimate the fair values of the acquired intangible assets. (AS 1210.12) In addition, the firm did not test the fair value of the acquired fixed assets. (AS 2502.15)

The firm did not evaluate whether the intangible assets were appropriately recorded as indefinite-lived, including not considering contradictory evidence that indicated that certain of the intangible assets had finite lives. (AS 2810.03 and .30)

Audits with Multiple Deficiencies

None

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 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. 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.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the audit reviewed, the firm did not include all of the required information in its engagement completion document. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In the audit reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the engagement quality reviewer. In this instance, the firm was non-compliant with AS 1220, *Engagement Quality Review*.

- In the audit reviewed, the firm did not make certain required communications to the audit committee equivalent related to (1) the significant risks identified through its risk assessment procedures; (2) significant unusual transactions; (3) corrected misstatements, including the implications that such corrected misstatements might have had on the issuer's financial reporting process; and (4) the firm's evaluation of the issuer's ability to continue as a going concern. In these instances, the firm was non-compliant with *AS 1301, Communications with Audit Committees*.

- In the audit reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph and did not include an appropriate title. In this instance, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern.*

- In the audit reviewed, the firm's audit report stated that there were no critical audit matters, but the firm did not perform procedures to determine whether or not matters that were communicated, or required to be communicated, to the audit committee, and that relate to accounts or disclosures that are material to the financial statements, were critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In the audit reviewed, the firm's audit report contained introductory language for a report with critical audit matters even though the audit report stated that there were no critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In the audit reviewed, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In this instance, the firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.

- In the audit reviewed and in three other audits, the firm did not file its report on Form AP by 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.

A. 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 2301 and AS 2810. (QC 20.03 and .17)

In one audit,[3] which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of revenue, including deficiencies related to not identifying and appropriately addressing a departure from GAAP.

B. Testing Acquisitions

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 acquisitions will meet the requirements of AS 1210, AS 2502, and AS 2810. (QC 20.03 and .17)

In one audit,[4] which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of an acquisition, including (1) not identifying and appropriately addressing a departure from GAAP, (2) testing the fair value of acquired assets, and (3) evaluating the useful lives of acquired intangible assets.

C. Related Parties

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 related party transactions will meet the requirements of AS 2410. (QC 20.03 and .17)

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[3] Issuer A

[4] Issuer A

In one audit,[5] the firm did not (1) obtain an understanding of the issuer's process for (a) identifying related parties and relationships and transactions with related parties, (b) authorizing and approving transactions with related parties, and (c) accounting for and disclosing relationships and transactions with related parties in the financial statements; (2) make certain inquiries of management regarding related parties; and (3) evaluate whether the issuer properly identified its related parties and relationships and transactions with related parties.

D. 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 one audit,[6] the firm did not make certain required communications to the issuer's audit committee related to (1) the significant risks identified through its risk assessment procedures, (2) the firm's evaluation of the issuer's ability to continue as a going concern, (3) significant unusual transactions, and (4) corrected misstatements, including the implications that such corrected misstatements might have had on the issuer's financial reporting process.

E. Engagement Quality Review

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

In one audit,[7] which is included in Part I.A and Part I.B, the inspection team identified deficiencies in areas that the EQR partner was required to evaluate. In this audit, the EQR partner did not identify a deficiency (1) in an area of significant risk, including in all cases, a fraud risk, (2) when evaluating the engagement team's determination, communication, and documentation of critical audit matters, and (3) in the audit report. In addition, the firm's work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the EQR partner.

F. Independence

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with independence-related regulatory requirements. (QC 20.04, .09, and .10)

* * * *[I]n one audit,[8] the firm appeared not to have satisfied an applicable independence-related regulatory requirement.

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5 Issuer A
6 Issuer A
7 Issuer A
8 Issuer A

G. Auditor Reporting of Certain Audit Participants

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 PCAOB Rule 3211. (QC 20.03 and .17)

In four audits,[9] the firm did not file its report on Form AP by the relevant deadline.

H. Audit Reports

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that audit reports issued by the firm will meet the requirements of AS 2415, AS 3101, and AS 3105. (QC 20.03 and .17)

In one audit,[10] the firm did not determine whether or not matters were critical audit matters or include in its audit report certain required language related to critical audit matters. In addition, the firm did not have the proper placement of or title for the explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern.

In addition, in the same audit, the firm did not include the following explanatory language in its report on the issuer's financial statements:

- The company is not required to have, nor was the auditor engaged to perform, an audit of its ICFR;
- As part of the audit, the auditor is required to obtain an understanding of ICFR but not for the purpose of expressing an opinion on the effectiveness of the company's ICFR; and
- The auditor expresses no such opinion.

I. Practice Monitoring

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm is effectively monitoring its accounting and auditing practice. (QC 20.20)

Although the firm's policies and procedures for monitoring its accounting and auditing practice require the performance of annual internal inspections, the firm has not performed an internal inspection since its registration with the Board.

J. Audit Methodology

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm will update its audit methodology on a timely basis. (QC 20.03 and .17)

The firm uses an audit methodology and practice aids obtained from an outside provider under a subscription arrangement. In one audit,[11] the audit methodology and practice aids used by the firm had not been updated in more than three years.

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9 Issuers A, B, C, and D

10 Issuer A

11 Issuer A

K. Compliance with Certain Audit Documentation Requirements

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 1215. (QC 20.03 and .17)

In one audit,[12] the firm did not include all of the required information in its engagement completion document.

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[12] 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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.