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# 2020 Inspection Warren Averett, LLC

(Headquartered in Birmingham, Alabama)

March 24, 2022

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. 104-2022-105A

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2022-105)



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## 2020 INSPECTION

In the 2020 inspection of Warren Averett, LLC, the Public Company Accounting Oversight Board (PCAOB) 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 with fiscal years 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.

### 2020 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 2020 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 inspection 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 Selected for Review

|   | 2020 | 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> | 12   | 12   |
| <b>Total engagement partners on issuer audit work<sup>1</sup></b>   | 4    | 5    |
| <b>Audits reviewed</b>  |      |      |
| <b>Total audits reviewed<sup>2</sup></b>  | 2    | 2    |
| <b>Audits in which the firm was the principal auditor</b>   | 2    | 2    |
| <b>Integrated audits of financial statements and internal control over financial reporting (ICFR)</b>                     | 1    | 0    |
| <b>Audits with Part I.A deficiencies</b>  | 2    | 0    |

If we include a deficiency 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

<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.

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.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it 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 2020 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.

| 2020                                   |                 | 2017                                   |                 |
|--|-----------------|--|-----------------|
| Audit area                             | Audits reviewed | Audit area                             | Audits reviewed |
| Investment securities                  | 1               | Investment securities                  | 1               |
| Participant and employer contributions | 1               | Participant and employer contributions | 1               |
| Goodwill and intangible assets         | 1               | Revenue and related accounts           | 1               |
| Debt                                   | 1               | Certain assets                         | 1               |
| Derivatives                            | 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 ("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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding 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 revised 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. We include any deficiencies identified in connection with our reviews of these audits 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.

We present issuer audits 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 – Healthcare

##### Type of audit and related area affected

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

##### Description of the deficiencies identified

The issuer completed an asset acquisition including the purchase of certain intangible assets. The issuer engaged an external specialist to estimate the fair value of the acquired intangible assets.

The firm did not determine the likely sources of potential misstatements associated with these acquired intangible assets to identify and test controls that addressed the risks of misstatement for the relevant assertions, including controls over the accuracy and completeness of issuer-prepared information provided to the external specialist. (AS 2201.30 and .39) In addition, the firm did not identify and test any controls over the subsequent valuation of these intangible assets. (AS 2201.39)

The firm's approach for testing the fair value of the intangible assets acquired in the asset acquisition was to review and test management's process. The following deficiencies were identified:

- The firm did not evaluate the reasonableness of cash flow projections the issuer provided to the external specialist. Further, the firm did not evaluate contrary evidence related to these projections. (AS 1210.12; AS 2810.03)
- The firm did not test the relevance and reliability of data the external specialist used to develop an assumption. (AS 2502.26, .28, and .31)
- The firm did not evaluate the reasonableness of an assumption developed by the external specialist. (AS 2502.26 and .28)
- The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and completeness of issuer-prepared information provided to the external specialist. (AS 1210.12)

The issuer performed a qualitative assessment to determine whether any of the acquired intangible assets were impaired. The firm did not sufficiently evaluate whether the issuer considered certain relevant events or changes in circumstances in conformity with FASB ASC Topic 350, *Intangibles – Goodwill and Other*, including the issuer's recurring operating losses, net losses, negative cash flows from operations, and substantial doubt about the issuer's ability to continue as a going concern when evaluating the issuer's qualitative assessment. (AS 2810.03 and .30)

## Issuer B – Benefit Plans

### Type of audit and related area affected

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

### Description of the deficiencies identified

The firm did not perform procedures to test the accuracy and completeness of data produced from the issuer's payroll system that the firm used to test participant contributions. (AS 1105.10)

The firm used certain data produced by the issuer's benefit plan record keeper in testing participant contributions. The firm did not perform any procedures that addressed the accuracy and completeness of this data. (AS 2301.08)

## 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 reviewed and include any instances of non-compliance below.

We identified the following deficiency:

In one of two audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, 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.

We include deficiencies 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.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. 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, we will make public any such deficiency.

### A. 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. (QC 20.03 and .17)

The inspection team identified deficiencies in the firm's testing of controls in one audit,<sup>3</sup> which is included in Part I.A, in the following areas: (1) determining the likely sources of potential misstatement and (2) identifying and testing controls, including controls over the accuracy and completeness of issuer-prepared information provided to an external specialist.

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<sup>3</sup> Issuer A

## B. Testing Intangible Assets

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 intangible assets will meet the requirements of AS 1210,<sup>4</sup> AS 2502,<sup>5</sup> and AS 2810. (QC 20.03 and .17)

In one audit,<sup>6</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the valuation of acquired intangible assets and evaluating the issuer's qualitative assessment.

## C. 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, AS 1210,<sup>7</sup> and AS 2301. (QC 20.03 and .17)

In two audits,<sup>8</sup> which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the accuracy and completeness of data used in its substantive procedures.

## D. 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 2401. (QC 20.03 and .17)

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<sup>4</sup> AS 1210, *Using the Work of a Specialist*, which was in effect at the time of the audits that were the subject of this inspection, was replaced by AS 1210, *Using the Work of an Auditor-Engaged Specialist*. In addition, AS 1105, *Audit Evidence*, and AS 1201, *Supervision of the Audit Engagement*, which were in effect at the time of the audits that were subject to this inspection, were revised to include appendices for auditor's use of the work of a company's specialist and auditor's supervision of the work of an auditor-employed specialist, respectively. This replacement and these revisions are effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

<sup>5</sup> AS 2502, *Auditing Fair Value Measurements and Disclosures*, which was in effect at the time of the audits that were the subject of this inspection, was replaced by AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, which is effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

<sup>6</sup> Issuer A

<sup>7</sup> As noted above, AS 1210, *Using the Work of a Specialist*, which was in effect at the time of the audits that were the subject of this inspection, was replaced by AS 1210, *Using the Work of an Auditor-Engaged Specialist*. In addition, AS 1105, *Audit Evidence*, and AS 1201, *Supervision of the Audit Engagement*, which were in effect at the time of the audits that were subject to this inspection, were revised to include appendices for auditor's use of the work of a company's specialist and auditor's supervision of the work of an auditor-employed specialist, respectively. This replacement and these revisions are effective for audits of financial statements for fiscal years ending on or after December 15, 2020.

<sup>8</sup> Issuers A and B

In one audit,<sup>9</sup> the firm did not (1) sufficiently test the completeness of the population from which it selected journal entries for testing and (2) test all journal entries meeting a fraud criterion determined by the firm or provide an explanation for excluding the untested journal entries.

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<sup>9</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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.

