2020 Inspection Whitley Penn LLP

(Headquartered in Fort Worth, Texas)

April 8, 2022

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2020 INSPECTION

In the 2020 inspection of Whitley Penn LLP, 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 three audits of issuers with fiscal year ending in 2019. 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
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	29	32
Total engagement partners on issuer audit work[1]	12	12
Audits reviewed		
Total audits reviewed[2]	3	4
Audits in which the firm was the principal auditor	3	4
Integrated audits of financial statements and internal control over financial reporting (ICFR)	2	1
Audits with Part I.A deficiencies	2	1

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 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.

[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.

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**	3
Revenue and related accounts	1	**Revenue and related accounts**	1
Allowance for loan losses	1	**Allowance for loan losses**	1
A significant account	1	**Participant distributions**	1
Business combinations	1	**Participant and employer contributions**	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). 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

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to a **Business Combination** and a **Significant Account**.

Description of the deficiencies identified

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The firm selected for testing a control that consisted of management's review of the reasonableness of the significant inputs and assumptions used to record the business combination. 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 certain issuer data and the relevance and reliability of external data used in the operation of the control. (AS 2201.39)

The issuer used an external valuation specialist to determine the fair value of the acquired entity. The firm's approach for substantively testing the fair value of the acquired entity was to review and test management's process. The firm did not perform any procedures to test the projections developed by the issuer that the external valuation specialist used. (AS 1210.12) In addition, the firm did not evaluate the reasonableness of the assumptions developed by the external valuation specialist. (AS 2502.26 and .28)

With respect to a **Significant Account**:

The issuer used a valuation model to determine the fair value of a significant account. The firm selected for testing certain controls that consisted of management's review of the reasonableness of the assumptions used in the valuation model and the output from the valuation model. 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 the data used in the operation of the controls. (AS 2201.39)

The firm did not identify and test the necessary complementary user controls to place reliance on, or identify and test any other controls over the accuracy and completeness of, certain assumptions and reports from a service organization used in the operation of controls. (AS 2201.39 and .B22)

The firm used the work of an external party, engaged by management, to test certain controls that addressed this significant account. The firm did not assess the competence and objectivity of the external party. (AS 2201.18) In addition, the firm did not evaluate the quality and effectiveness of the external party's work. (AS 2605.24)

The firm's approach for substantively testing the fair value of the significant account was to review and test management's process. The firm did not evaluate the reasonableness of certain assumptions used to determine the fair value. (AS 2502.26 and .28) In addition, the firm did not perform any substantive procedures to test, or in the alternative, identify and test any controls over the accuracy and completeness of the internal data and did not evaluate the relevance and reliability of the external data the issuer used to develop certain assumptions. (AS 2502.26, .28, and .39) The firm also did not test whether the fair value measurement was accurately calculated from the data and the issuer's assumptions. (AS 2502.39)

Issuer B – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to the **Allowance for Loan Losses (ALL)** and **Investment Securities**.

Description of the deficiencies identified

With respect to the **ALL**:

The firm selected for testing controls that consisted of management's review of qualitative factors and the reasonableness of loan grade basis points used in the determination of the ALL. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the qualitative factors and loan grade basis points. (AS 2301.19 and .21)

The firm selected for testing a control that consisted of management's review of assigned loan risk ratings. The firm did not identify that this control only operated over newly originated loans and, as designed, would not prevent or detect a material misstatement related to the assignment of loan risk ratings to loans in the issuer's existing loan portfolio. (AS 2301.19)

The firm did not perform procedures to evaluate the reasonableness of the qualitative factors and loan grade basis points used by the issuer to determine the ALL beyond comparing the current period qualitative factors and loan grade basis points to those used in prior periods. (AS 2501.07)

The sample size the firm used in certain of its substantive procedures to test the reasonableness of assigned loan risk ratings was too small to provide sufficient appropriate audit evidence because these procedures were based on a level of control reliance that was not supported due to the deficiency in the firm's control testing described above. Further, the sample size the firm used in certain of its substantive procedures to test the reasonableness of assigned loan risk ratings was too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its sample size, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2301.16, .18, and .37; AS 2315.16, .19, .23, and .23A)

With respect to **Investment Securities**:

The firm selected for testing a control that consisted of management's review of other-than-temporary impairment of investment securities. The firm did not identify that this control only operated over certain investment securities and, as designed, would not prevent or detect a material misstatement related to the other investment securities. (AS 2301.19)

The sample size the firm used in certain of its substantive procedures to test the valuation of investment securities was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiency in the firm's control testing discussed above. Further, the sample size the firm used in certain of its substantive procedures to test the valuation of investment securities was too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its sample size, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2301.16, .18, and .37; AS 2315.16, .19, .23, and .23A)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

In the 2020 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

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.

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.

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January 4, 2022

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

Re: Response to Part I of the Draft Report on 2020 Inspection of Whitley Penn LLP

Dear Mr. Botic:

Thank you for the opportunity to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on 2020 Inspection of Whitley Penn LLP ("Draft Report"). We support the inspection process and believe it plays a significant role in achieving our shared objective of maintaining the highest level of audit quality.

We have evaluated the matters set forth included in Part I of the Draft Report and understand our professional responsibilities under AS 2901, *Consideration of Omitted Procedures After the Report Date*, and, to the extent applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

We have no further comments on the Draft Report. We appreciate the professionalism and courtesy of the PCAOB's inspection team.

Respectfully submitted,

Whitley Penn LLP

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