
2020 Inspection L J Soldinger Associates, LLC

(Headquartered in Deer Park, Illinois)

May 13, 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. 104-2022-132A

(Includes portions of Part II and Appendix A of the full report
that were not included in PCAOB Release No. 104-2022-132)



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2020 INSPECTION

In the 2020 inspection of L J Soldinger Associates, 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 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	12	10
Total engagement partners on issuer audit work¹	3	2
Audits reviewed		
Total audits reviewed²	2	2
Audits in which the firm was the principal auditor	2	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
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.

Our 2020 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 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
Revenue and related accounts	2	Revenue and related accounts	1
Goodwill and intangibles assets	2	Accruals and other liabilities	1
Long-lived assets	1	Long-lived assets	1
Use of other auditors	1	Equity and equity-related transactions	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.

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 – Communication Services

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Goodwill**:

The issuer completed a quantitative assessment that indicated that goodwill was not impaired, but recorded an impairment of goodwill based solely on qualitative information. The firm did not identify and appropriately address a departure from GAAP related to the issuer recording an impairment solely on qualitative information, which is not in conformity with FASB ASC Topic 350, *Intangibles – Goodwill and Other*. (AS 2502.15; AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for the goodwill impairment 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**:

The firm did not perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and completeness of certain information the firm obtained from the issuer and used to test certain revenue. (AS 1105.10) In addition, the firm did not perform procedures to test whether performance obligations were satisfied prior to the recognition of certain other revenue. (AS 2301.08)

With respect to **Journal Entries**:

The firm did not identify and select journal entries and other adjustments for testing. (AS 2401.58)

Audits with a Single Deficiency

Issuer B

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 perform any substantive procedures to test, or in the alternative, test any controls over, the accuracy and completeness of certain information the firm obtained from the issuer and used to test 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 areas below were 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.

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 one of two audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In addition, in this audit, the firm incorrectly computed total audit hours used to report information related to the participation in the audit by other accounting firms in its report on Form AP. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one of two audits reviewed, the firm did not make the required written communications to and did not discuss with the audit committee equivalent the potential effects of the permissible tax services on the independence of the firm and document the substance of those discussions. In this instance, the firm was non-compliant with PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*.

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.

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)

In two audits,³ both of which are included in Part I.A, the inspection team identified deficiencies related to unwarranted reliance on data and reports. In these audits, the firm did not test, or in the alternative, test controls over, the accuracy and completeness of certain data and reports that it used in its substantive testing.

* * * *

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,⁴ both of which are included in Part I.A, the inspection team identified deficiencies in areas 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.

³ Issuers A and B

⁴ 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 the procedures necessary to comply with AS 2401. (QC 20.03 and .17)

In two audits,⁵ the firm did not obtain an understanding of the design of any specific controls implemented by the issuer over journal entries and other adjustments and determine whether they were suitably designed and have been placed in operation. In one audit,⁶ which is included in Part I.A, the firm did not * * * * identify and select journal entries and other adjustments for testing * * * *. In another audit,⁷ the firm did not * * * * consider the characteristics of potentially fraudulent journal entries for purposes of identifying and selecting specific entries and other adjustments for testing and instead limited its testing to haphazardly selected journal entries * * * *.

* * * *

⁵ Issuers A and B

⁶ Issuer A

⁷ Issuer B

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.



Certified Public Accountants and Business Consultants

April 15, 2022

Mr. George Botic, Director
Public Company Accounting Oversight Board
Division of Registration and Inspections
1666 K Street NW
Washington, DC, 20006

Re: Firm ID# 318
Response to Draft Report on 2020 Inspection of L J Soldinger Associates, LLC

Dear Mr. Botic,

We appreciate the opportunity to respond to the PCAOB's 2020 Draft Report of Inspection of L J Soldinger Associates, LLC, which we have carefully evaluated. As we have previously communicated, we disagree with the PCAOB's comments relating to the performance of our audits for the indicated registrants. Nevertheless, we have sincerely appreciated the work and experience of the Inspection Staff and will continue to carefully consider the Staff's comments in connection with our future audit work in our continuing effort to improve audit quality. We remain committed to making audit quality our top priority.

Sincerely,

L J Soldinger Associates, LLC
Deer Park, Illinois



January 10, 2022

Via Electronic Mail

Mr. George Botic, Director
Public Company Accounting Oversight Board
Division of Registration and Inspections
1666 K Street NW
Washington, DC, 20006

Re: Firm ID# 318
Response to Draft Report on 2020 Inspection of LJ Soldinger Associates, LLC

Dear Mr. Botic,

Thank you for the opportunity to respond to the Draft Report of Inspection. On behalf of LJ Soldinger Associates, LLC (the "Firm"), I would like to address each of the stated deficiencies outlined in the Draft Report of Inspection and do so below:

PART 1.A: AUDITS WITH UNSUPPORTED OPINIONS

Audits with Multiple Deficiencies

Issuer A

With respect to Goodwill:

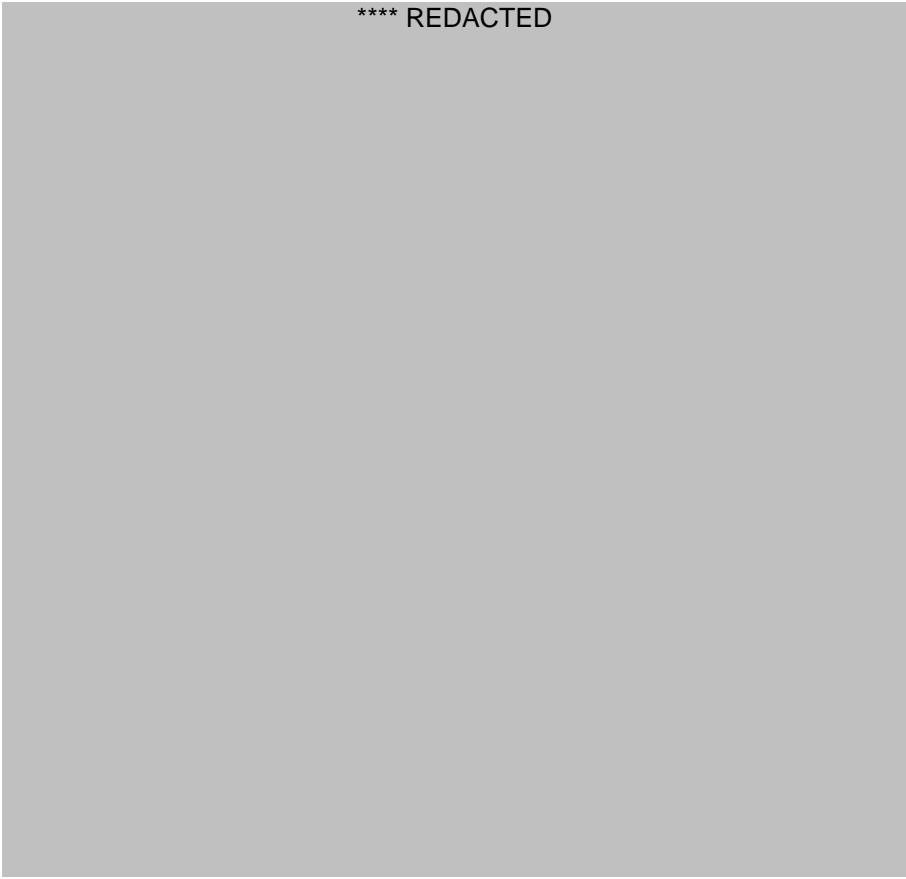
**** REDACTED

Firm's response:

The Firm respectfully disagrees that the issuer originally made its goodwill determination only considering qualitative information but does agree that prior to the PCAOB Inspection, an error in the goodwill determination was detected and the financial statements were restated. The Firm believes that the circumstances are important to an assessment of this issue, specifically in regard to reliance on qualitative information only.

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**** REDACTED



With Respect to Revenue:

**** REDACTED



Firm's response:

**** REDACTED The Firm performed substantive detail testing
on a sampling of transactions **** REDACTED. However, the
Firm agrees that the audit team did not test a sufficient number of transactions in its work

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performed for **** REDACTED and with respect to **** REDACTED failed to properly test delivery for all but two of the **** samples. However, the Firm believes further explanation is warranted here.

**** The audit team performed sample testing covering 62 items, including tests covering ASC 606 revenue recognition requirements. In its judgment, the audit team believed that this was a sufficient sample size based upon its ICFR work performed. We understand that the Inspection Team did not agree because it believed there was an underperformance of testing in the ICFR testing, and a larger sample size was therefore required.

**** While a sufficient quantity of substantive testing did take place, the testing performed for delivery was not sufficient. This was in large part due to an unforeseen miscommunication between **** audit team members. As a result of this miscommunication, only two samples out of 105 samples were tested with respect to the delivery, when based upon the facts before them, the audit team believed all ASC 606 requirement testing had been performed.

With respect to Journal Entries:

**** REDACTED

Firm's response:

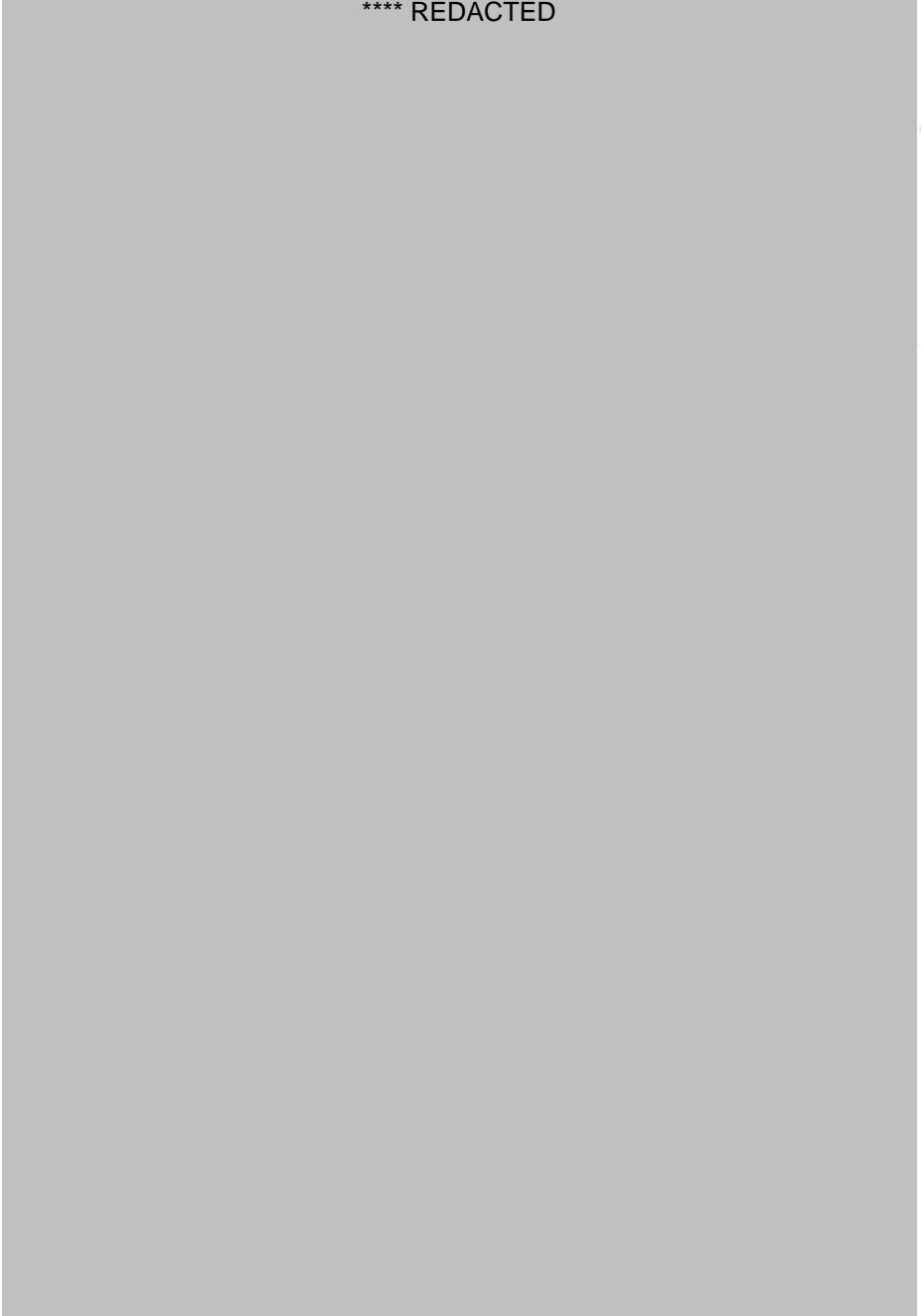
We do not believe that this finding completely and accurately sets forth what occurred during this audit. **** REDACTED

**** REDACTED The audit team performed a 100% substantive detail testing audit program, including (i) the testing all items over the designated individually significant item level (which was determined at 1/3 of Tolerable Misstatement) and (ii) then sampling those items below the individually significant item level. By performing these substantive testing procedures, the audit team effectively tested the selected journal entries and other adjustments that the finding states were not tested. Accordingly, we disagree with the statement: *The firm did not identify and select journal entries and other adjustments for testing.* (AS 2401.58). Through its use of a substantive detail testing program, the audit team did in fact identify the characteristics of fraudulent entries or adjustments and did select journal entries with those characteristics as part of their procedures for journal entry testing.

**** REDACTED

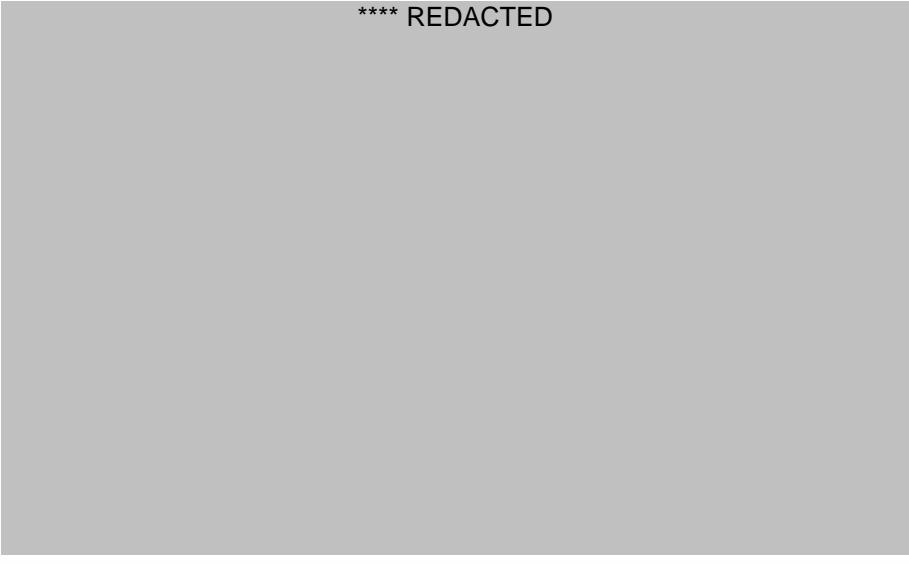
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**** REDACTED



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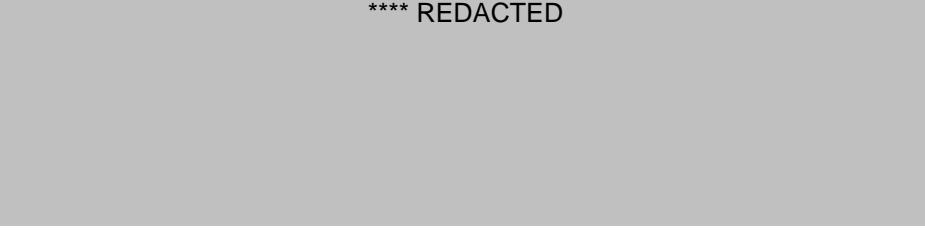
**** REDACTED



Part II: OBSERVATIONS RELATED TO QUALITY CONTROL

**** Reliance on Data and Reports

**** REDACTED



Firm's response:

Issuer A

The Firm notes its responses to the deficiencies noted above. The Firm notes that the reviewers did not identify the deficiencies noted by the PCAOB inspection team with the explanations and/or further responses provided above.

Issuer B

We believe that the testing that the audit team performed was sufficient, and that the testing and conclusions reached by the audit team were properly documented. **** REDACTED



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**** REDACTED

The EQR partner documented all reviewed workpapers including the workpapers containing conclusions reached by the audit team.

**** REDACTED

**** Engagement Quality Review

**** REDACTED

Firm's response:

Issuer A

Please see our responses above. We also note that all workpapers supporting material balances, including areas of fraud risk, were reviewed by the EQR partner. This was evidenced by the EQR partner's initials on the workpapers reviewed, which included the conclusions reached by the audit team.

Issuer B

We do not agree that there was a deficiency in an area of significant or fraud risk with respect to this audit. As noted in our response to Part II ** "Reliance on Data and Reports," while we understand the Inspection Team's comments, we believe our testing that was performed was sufficient.

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**** Fraud Procedures

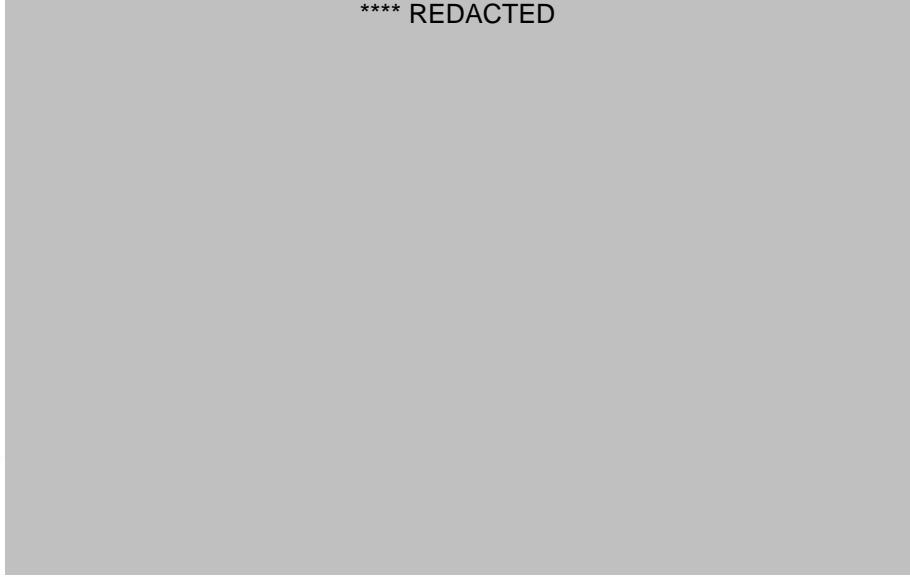
**** REDACTED



Firm's response:

The audit team and the EQR Partner believe that the audit team did identify characteristics of fraudulent journal entries and did select journal entries with those characteristics for testing. The sample was properly selected and tested; however, the audit team recognizes that there could have been additional documentation of the selection procedures performed in selecting the sample. The EQR partner did not consider that the documentation of the selection procedures was insufficient. Regardless, attention will be paid to documentation in future audits with similar issues.

**** REDACTED



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**** REDACTED

In conclusion, please consider this written response to the draft inspection report and take it into account in determining the content of the final inspection report.

Sincerely,

L J SOLDINGER ASSOCIATES, LLC

A handwritten signature in blue ink, appearing to read "Larry Soldinger".

Larry Soldinger, Managing Member

