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# 2020 Inspection PKF Littlejohn LLP

(Headquartered in London, United Kingdom)

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. 104-2022-136A**

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2022-136)



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## 2020 INSPECTION

In the 2020 inspection of PKF Littlejohn 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. Our inspection was conducted in cooperation with the United Kingdom Financial Reporting Council.

We selected for review two audits of issuers, one with fiscal year ending in 2020 and one with a 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

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

	2020
<b>Firm data</b>	
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	2
Total issuer audits in which the firm was not the principal auditor	0
Total engagement partners on issuer audit work <sup>1</sup>	2
<b>Audits reviewed</b>	
Total audits reviewed <sup>2</sup>	2
Audits in which the firm was the principal auditor	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	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.

<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) or for the firm's role in an issuer audit 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.

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. 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	
Audit area	Audits reviewed
Revenue and related accounts	2
Other investments	1
Inventory	1
Cash and cash equivalents	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

#### Type of audit and related areas affected

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

#### Description of the deficiencies identified

The firm selected for testing certain controls to reduce the nature, timing, and extent of its substantive procedures over revenue and accounts receivable. The following deficiencies were identified:

- The firm did not identify and test any controls over the accuracy and completeness of certain information used in determining certain revenue ("type one" revenue). (AS 2301.16)
- The firm selected for testing a control over the review of type one revenue. 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 2301.19 and .21)

- The firm did not identify and test any controls over the accuracy and completeness of information produced by the issuer used in the performance of certain controls. (AS 2301.16)
- The firm identified a control deficiency in its testing of a control over certain other revenue ("type two" revenue) but did not evaluate the severity of the deficiency and its effect on the firm's control risk assessment. (AS 2301.34)
- The firm selected for testing certain other controls. The firm did not perform any procedures to test those controls during the current year but rather relied on the results of its testing in the prior year. (AS 2301.19 and .21)

The firm identified fraud risks related to type one revenue. To test this revenue, the firm selected large value contracts that were open at year end for testing. The firm did not perform any procedures to test the remaining population of type one revenue. (AS 1105.27; AS 2301.13) In addition, for the contracts selected for testing, the firm did not perform sufficient procedures to test revenue because it limited its procedures to reviewing the contract. (AS 2301.13)

The firm did not perform any substantive procedures to test type two revenue. (AS 2301.08)

To test accounts receivable, the firm selected a sample of accounts receivable aged more than a certain number of days. The firm did not perform any procedures to test the remaining population of receivables. (AS 2315.24)

## 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 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 the two audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to changes to significant risks initially identified and communicated to the audit committee equivalent, and the reasons for such changes. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the two audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by an other accounting firm. 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.

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 Revenue and Accounts Receivable

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 revenue and accounts receivable will meet the requirements of AS 1105, AS 2301, and AS 2315. (QC 20.03 and .17)

In one audit,<sup>3</sup> which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of controls over, and substantive testing of, revenue and accounts receivable.

### B. 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,<sup>4</sup> the firm appeared not to have satisfied an applicable independence-related regulatory requirement.

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<sup>3</sup> Issuer A

<sup>4</sup> Issuer A

## C. Assigning Personnel with Adequate Training and Proficiency

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm will assign work to personnel who have the technical training and proficiency required in the circumstances in accordance with QC 20 and AS 1010. (QC 20.03 and .13)

The firm does not have training requirements that require professionals assigned to issuer audit work to receive training on PCAOB standards and rules, SEC rules and regulations, and U.S. GAAP.

## 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 two audits,<sup>5</sup> the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In one audit,<sup>6</sup> the firm did not make certain required communications to the issuer's audit committee equivalent related to changes to significant risks initially identified and communicated to the audit committee equivalent and the reasons for such changes.

## E. 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 two audits,<sup>7</sup> the firm's report on Form AP omitted information related to the participation in the audit by an other accounting firm.

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<sup>5</sup> Issuers A and B

<sup>6</sup> Issuer B

<sup>7</sup> Issuers A and 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.

PKF Littlejohn LLP



Accountants &  
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Our ref PCAOB/DAT/RD  
Your ref 2814

12 January 2022

Mr. Botic

**Response to Part I of the draft report on the 2020 inspection of PKF Littlejohn LLP**

We are pleased to provide our response to the Public Company Accounting Oversight Board's (PCAOB) draft report on the 2020 inspection of PKF Littlejohn LLP.

We have carefully considered the matters identified in Part I of the draft report. The Firm has taken the required actions to address the engagement-specific findings in order to ensure it fulfils its responsibilities under the PCAOB standards and rules.

The Firm has also taken the opportunity afforded by the PCAOB inspection to strengthen its quality control policies and procedures in relation to our issuer audit engagements. These steps will ensure we are better placed to achieve the expected standards and continue to deliver value to the capital markets by consistently performing high-quality audits.

We look forward to continuing our discussions with the PCAOB to continue strengthening our audit processes and procedures.

Yours sincerely

A handwritten signature in black ink that reads 'David Thompson'.

David Thompson  
*Audit Compliance Partner*

For and on behalf of PKF Littlejohn LLP

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