2021 Inspection B F Borgers CPA PC

(Headquartered in Lakewood, Colorado)

December 22, 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. 104-2023-036A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2023-036)

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

TABLE OF CONTENTS

2021 INSPECTION

In the 2021 inspection of B F Borgers CPA PC, 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 ten audits of issuers with fiscal years generally ending in 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2021 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 necessarily 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 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 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

	2021	2019
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	168	80
Total engagement partners on issuer audit work[1]	4	3
Audits reviewed		
Total audits reviewed[2]	10	9
Audits in which the firm was the principal auditor	10	9
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	10	8

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 deficiency 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, *Supervision of the Audit Engagement*) 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 audit report 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 2021 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.

2021		2019	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	9	**Revenue and related accounts**	9
Cash and cash equivalents	5	**Goodwill and intangible assets**	5
Goodwill and intangible assets	2	**Cash and cash equivalents**	4
Financial reporting	2	**Business combinations**	3
Inventory	2	**Going concern**	2

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 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 – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Receivables**, **Liabilities**, and **Related Party Transactions**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform substantive procedures to test revenue, beyond comparing it to prior year revenue and comparing certain revenue to the issuer's information system. (AS 2301.08) In addition, the firm did not perform any substantive procedures to evaluate whether the issuer's revenue recognition policies were in accordance with GAAP. (AS 2301.08)

With respect to **Receivables**:

The firm did not perform substantive procedures to test certain receivables beyond comparing the balance to the sub-ledger. (AS 2301.08)

The firm did not perform substantive procedures to test certain other receivables, beyond obtaining and reading memoranda from the issuer and a legal letter, which did not include any conclusions with respect to these receivables. (AS 2301.08)

With respect to **Liabilities**:

The firm did not perform any substantive procedures to test certain liabilities. (AS 2301.08)

With respect to **Related Party Transactions**:

The firm did not evaluate whether the issuer properly identified its related parties and relationships and transactions with related parties. Further, the firm did not evaluate whether the related party transactions were properly accounted for and disclosed in the financial statements. (AS 2410.14 and .17)

The firm did not identify, and appropriately address, a GAAP departure related to the issuer's omission of a related party disclosure. (AS 2410.17; AS 2810.30 and .31)

Issuer B – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Journal Entries** and **Gains on Discontinued Operations**.

Description of the deficiencies identified

With respect to **Journal Entries**:

The firm identified journal entries and adjustments for testing. As part of its testing, the firm documented that certain journal entry line items were not supported by proper documents and that certain of these journal entry line items did not have an appropriate business purpose. The firm did not evaluate whether the results of these procedures and other observations affected the assessment of fraud risks made throughout the audit and whether audit procedures should have been modified to respond to those risks. (AS 2810.28)

With respect to **Gains on Discontinued Operations**:

The issuer reported gains from the sales of certain discontinued operations. The issuer reclassified certain amounts from equity to the gain on disposal. The following deficiencies were identified:

- The firm did not perform substantive procedures, beyond reviewing the issuer's accounting memorandum, to test the reclassification of certain amounts from equity to the gain on disposal. (AS 2301.08)

- The firm did not perform sufficient procedures to test the assets, liabilities, and equity accounts included in the calculation of the gains on the sales, because it limited its procedures to comparing the amounts to the respective general ledgers. (AS 2301.08)

- The firm did not identify, and evaluate the significance to the financial statements of, an error related to the issuer's use of an incorrect exchange rate, at the date of certain of the sales, to translate the assets, liabilities, and certain equity adjustments. (AS 2810.30)

- The firm did not identify, and evaluate the significance to the financial statements of, errors in the disclosures of discontinued operations related to (1) an incorrect amount disclosed related to the gain on disposal for one sale and (2) the aggregation of the reclassification of certain equity adjustments for different discontinued operations within the gain on disposal for one sale. (AS 2810.30 and .31)

Issuer C – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence** and a **Business Combination**.

Description of the deficiencies identified

With respect to **Audit Evidence**:

Prior to the report release date, the firm did not complete all necessary audit procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm completed the performance, and review, of a significant number of auditing procedures after the report release date. (AS 1105.04; AS 1215.15)

With respect to a **Business Combination**:

During the year, the issuer acquired a business and engaged a specialist to estimate the fair value of the acquired intangible assets and goodwill at the acquisition date. The firm's approach for substantively testing the fair value of these assets was to test the issuer's process. The following deficiencies were identified:

- The firm did not perform sufficient substantive procedures to evaluate the reasonableness of certain significant assumptions developed by the issuer because the firm limited its procedures to obtaining issuer-prepared documents. (AS 2501.16) In addition, the firm did not perform any substantive procedures to test, or in the alternative, identify and test controls over, the accuracy and completeness of those documents. (AS 1105.10)

- The firm did not perform any substantive procedures to evaluate the reasonableness of other significant assumptions developed by the issuer. (AS 2501.16)

- The firm did not perform any substantive procedures to test the completeness, existence, and accuracy of the other assets acquired and liabilities assumed at the acquisition date. (AS 2301.08) In addition, the firm did not perform any substantive procedures to test the fair value of the other assets acquired and liabilities assumed at the acquisition date. (AS 2501.07)

Issuer D – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue and Deferred Revenue**:

The firm did not perform substantive procedures to test whether the performance obligation had been satisfied when revenue was recognized, beyond reviewing the issuer's internal invoices. (AS 2301.08) In addition, the firm did not perform substantive procedures to evaluate the completeness of deferred revenue beyond obtaining the issuer's internal documentation of revenue recognized. (AS 2301.08)

With respect to **Derivative Liabilities**:

The issuer reported derivative liabilities at fair value. The firm's approach for substantively testing the fair value of the derivative liabilities was to test the issuer's process. The following deficiencies were identified:

- The firm did not perform any substantive procedures to evaluate the relevance and/or reliability of certain data the issuer used to develop assumptions used in its determination of the fair value. (AS 1105.04 and .06)

- The firm did not evaluate whether the method the issuer used to develop the fair value was in conformity with the applicable financial reporting framework, including whether the data was appropriately used and significant assumptions appropriately applied, and appropriate for the nature of the related account. (AS 2501.10)

With respect to **Journal Entries**:

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

Issuer E

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Discontinued Operations**:

The issuer reported discontinued operations, classified as held for sale at year end, including intangible assets. The issuer recorded an adjustment to measure an intangible asset at fair value less cost to sell ("adjustment") and an impairment for certain other intangible assets during the year. The following deficiencies were identified:

- The firm did not sufficiently evaluate whether the adjustment of the intangible asset, subject to amortization, was determined in conformity with FASB ASC Topic 360, *Property, Plant, and Equipment*, because the firm did not evaluate that the issuer appeared to remeasure the valuation of this asset based on the fair value of the discontinued operations as opposed to a fair value estimate of this asset. (AS 2301.08)

- The firm did not sufficiently evaluate whether the impairment of certain intangible assets, not subject to amortization, was determined in conformity with FASB ASC Topic 350, *Intangibles – Goodwill and Other*, because the firm did not evaluate that the issuer appeared to determine the impairment of these assets based on the fair value of the discontinued operations as opposed to a fair value estimate of these intangible assets. (AS 2301.08)

- The firm did not perform substantive procedures, beyond reviewing an issuer-prepared memorandum and recalculating the amounts, to test the adjustment and impairment. (AS 2501.07)

With respect to **Revenue**:

To test certain revenue, the firm (1) confirmed certain revenue transactions and received two confirmations back with exceptions, (2) selected revenue transactions above a threshold and a sample of transactions below that threshold for detail testing, and (3) performed cut-off testing. The following deficiencies were identified:

- The firm did not evaluate the nature of exceptions on the two returned confirmations. (AS 2310.33)

- In determining its sample size for transactions below the threshold for detail testing, the firm did not take into account the tolerable misstatement for the population and the allowable risk of incorrect acceptance. (AS 2315.16, .19, .23, and .23A)

- The firm did not sufficiently perform substantive procedures to test, or in the alternative, identify and test controls over, the accuracy and completeness of issuer-prepared information the firm used in its substantive procedures because the firm limited its procedures comparing the issuer-prepared information to other issuer-provided information. (AS 1105.10)

With respect to **Accounts Receivable**:

The firm did not perform any substantive procedures to test the existence of accounts receivable. (AS 2301.08) In addition, the firm did not perform any substantive procedures to test the valuation of accounts receivable. (AS 2501.07)

Issuer F – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, a **Business Combination**, and **Goodwill and Intangible Assets**.

Description of the deficiencies identified

With respect to the **Revenue**:

For the majority of certain revenue, the issuer concluded that there was a single performance obligation. The following deficiencies were identified:

- The firm did not perform sufficient procedures to evaluate whether certain services offered as part of those transactions represented separate performance obligations, because the firm concluded they were not separate performance obligations since the issuer had not performed the services during the year, and did not evaluate whether the issuer would perform the services as part of completing the transactions. (AS 2301.08; AS 2810.03)

- The firm did not sufficiently test the transaction price, because it did not evaluate whether the promised consideration included a variable amount. (AS 2301.08)

- The issuer identified one transaction with multiple performance obligations. The firm did not perform procedures to evaluate the allocation of the transaction price to the performance obligations. (AS 2301.08)

For certain other revenue, the firm did not obtain an understanding of the specific terms and provisions of the contracts to evaluate whether the issuer appropriately recognized revenue. (AS 2301.08)

With respect to a **Business Combination**:

During the prior year, the issuer acquired a controlling interest in a business and, during the current year, engaged a specialist to estimate the final fair value of the non-controlling interest. The firm did not evaluate whether the model the company's specialist used to determine the fair value was appropriate under the circumstances. (AS 1105.A8c) In addition, the firm did not evaluate the reasonableness of certain significant assumptions the company's specialist developed and used. (AS 1105.A8b)

With respect to **Goodwill and Intangible Assets**:

The issuer reported goodwill for several reporting units and recorded an impairment of goodwill for one of the reporting units during the year. The firm did not perform any substantive procedures to evaluate whether the issuer identified the reporting units in conformity with FASB ASC Topic 350. (AS 2301.08)

The issuer identified impairment indicators for an intangible asset and engaged a specialist to estimate the fair value of the asset. The firm's approach for substantively testing the fair value of this asset was to test the issuer's process. The firm did not perform substantive procedures, beyond inquiry, to evaluate the reasonableness of certain significant assumptions the issuer developed that the company's specialist used. (AS 2501.16) In addition, the firm did not sufficiently evaluate the reasonableness of another significant assumption, developed by the issuer, because it limited its procedures to inquiry and vouching an aspect of the assumption to support. (AS 2501.16)

Issuer G – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer reported right-of-use assets and lease liabilities. The issuer performed a recoverability test to determine whether these assets were impaired that included cash flows for years beyond the terms of the leases. The firm's approach for substantively testing the recoverability test was to test the issuer's process. The following deficiencies were identified:

- The firm did not sufficiently evaluate whether any of the issuer's leases met the criteria for classification as finance leases in conformity with FASB ASC Topic 842, *Leases*, because the firm did not perform procedures to determine whether (1) the lease term is for the major part of the remaining economic life of the underlying asset and (2) the present value of the of the lease payments exceeds substantially all of the fair value of the underlying asset. (AS 2301.08)

- The firm did not perform any substantive procedures to evaluate the reasonableness of the discount rate the issuer used to develop the estimate of lease liabilities. (AS 2501.16)

- The firm did not perform any substantive procedures to determine whether the issuer developed the discount rate in conformity with FASB ASC Topic 842. (AS 2301.08)

- The firm did not sufficiently evaluate the reasonableness of cash flow projections used in the issuer's recoverability test, because it did not take into account the issuer's ability to carry out the cash flow projections, including its ability to generate cash flows for the years after the end of the terms of the leases. (AS 2501.16 and .17)

- The firm did not perform sufficient procedures to test whether the issuer had identified all of the lease arrangements because it did not perform any procedures to test the completeness of the issuer's list of leases. (AS 1105.10)

Issuer H – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to the **Revenue and Related Accounts**:

The issuer reported revenue from different types of services. The firm did not perform any substantive procedures to evaluate whether each type of service represented a separate performance obligation. (AS 2301.08)

The firm did not perform substantive procedures to test revenue in excess of billings, beyond comparing the balance to the subsidiary ledger. (AS 2301.08)

With respect to **Goodwill**:

The issuer reported goodwill for several reporting units and performed a quantitative assessment of the impairment of goodwill for each reporting unit. The firm's approach for substantively testing the quantitative assessments was to test the issuer's process. The firm did not evaluate the reliability of data from external sources the issuer used to determine certain assumptions. (AS 1105.04 and .06) In addition, the firm did not perform any substantive procedures to evaluate the reasonableness of certain assumptions developed by the issuer. (AS 2501.16)

Issuer I – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to the **Revenue and Deferred Revenue**:

To test certain revenue, the firm selected a sample of transactions. The firm did not perform substantive procedures to test whether the issuer satisfied its performance obligations for these transactions when revenue was recognized. (AS 2301.08) In addition, the firm did not perform substantive procedures to test whether the issuer satisfied its performance obligations related to certain other revenue. (AS 2301.08)

The firm did not perform any substantive procedures to test a third type of revenue and the related deferred revenue. (AS 2301.08)

With respect to **Goodwill**:

The issuer engaged a specialist to perform a quantitative assessment of its goodwill. The firm did not perform substantive procedures to test the quantitative assessment, beyond obtaining and reading the valuation report prepared by the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

Issuer J – Health Care

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Long-Lived Assets**.

Description of the deficiencies identified

The issuer performed an impairment analysis, using one asset group, of its long-lived assets. The following deficiencies were identified:

- The firm did not evaluate whether the issuer appropriately determined that the one asset group represented the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets in conformity with FASB ASC Topic 360, because it did not consider that the issuer appeared to aggregate the undiscounted cash flows from different groups of assets in the analysis. (AS 2301.08; AS 2810.03)

- The firm did not perform substantive procedures, beyond reviewing the issuer's impairment analysis, to test the valuation of the long-lived assets. (AS 2501.07)

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 one of 10 audits reviewed, the firm did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation.*

- In the 10 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the engagement quality reviewer, including evidence that the engagement quality reviewer evaluated the engagement team's responses to the significant risks identified. In these instances, the documentation of the engagement quality review was non-compliant with AS 1220, *Engagement Quality Review*.

- In two of 10 audits reviewed, the firm did not establish an understanding of the terms of the audit engagement with the audit committee, or equivalent, record such understanding in an engagement letter, and determine that the audit committee, or equivalent, acknowledged and agreed to the terms of the engagement. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees.*

- In six of 10 audits reviewed, the firm did not communicate to the issuer's audit committee, or equivalent, all of the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 10 audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the name, location, and planned responsibilities of other persons not employed by the firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In three of 10 audits reviewed, the firm did not make a required communication to the audit committee related to corrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 10 audits reviewed, the firm inaccurately communicated to the audit committee that it identified misstatements that the issuer corrected. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 10 audits reviewed, the firm did not communicate to the issuer's audit committee all of the uncorrected misstatements that it identified. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 10 audits reviewed, the firm's audit report did not include a statement indicating that the financial statements included the related notes. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

- In seven of seven audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures certain matters that were communicated, or required to be communicated, to the issuer's audit committee, or equivalent, and that related to accounts or disclosures that were material to the financial statements. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In five of seven audits reviewed, the firm's communication of one or more critical audit matters in the audit report included language that was inconsistent with information in the firm's audit documentation. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In five of 10 audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants.*

- In three of 10 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by other accounting firms. 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. Tone at the Top

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm will comply with PCAOB standards in the firm's issuer audit practice. (QC 20.03, .04, and .17)

An appropriate tone at the top is important to maintaining and improving audit quality. An appropriate (or inappropriate) tone and the actions of leadership can have far-reaching effects on the firm's culture and on its professionals, including how firm professionals execute their responsibilities as auditors.

In a significant portion of the firm's audit work reviewed in this inspection, the inspection team identified deficiencies in the performance of the work, as described in Part I.A and Part I.B of this report. The inspection team also identified deficiencies in the firm's system of quality control, which are further described in Part II of this report. The continued high level of instances of non-compliance with PCAOB standards or rules and quality control defects noted in both the 2021 and 2019 inspections raises concerns about the effectiveness of the firm's system of quality control and the firm's ability to consistently perform audits in accordance with PCAOB standards and rules.

In previous inspections of the firm, we identified numerous deficiencies that were of such significance that they were included in Part I.A. Despite the high rate of deficiencies, the firm significantly increased its number of issuer audit clients in the last two years without a corresponding increase in the number of firm partners, as described in Part II.B, *Acceptance of Clients and Engagements and Partner Workload*. As a result, the firm's leadership does not appear to be sufficiently balancing firm growth with ensuring audit quality.

In addition, the firm's leadership does not appear to take appropriate responsibility for certain deficiencies in the firm's system of quality control. For example, the substance of certain of the observations in this inspection is similar to the substance of observations in the previous inspection, including (1) testing estimates, including fair value measurements, and using the work of a company's specialist; (2) testing revenue and related accounts; (3) testing data and reports used in substantive procedures; (4) fraud procedures; (5) firm independence; (6) audit reports; (7) communications with audit committees; (8) auditor reporting of certain audit participants; (9) compliance with certain audit documentation requirements; (10) engagement quality review; and (11) state practice qualification requirements. This apparent lack of accountability demonstrated by the firm's leadership may cause the firm's professionals to assume a similar attitude related to audit quality.

While multiple factors may have contributed to the negative inspection results in the current year, the tone set by the firm's leadership, as described above, suggests a lack of commitment to instilling an overarching imperative of audit quality into the performance of each of the firm's issuer audits and into the firm's culture.

B. Acceptance of Clients and Engagements and Partner Workload

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm will comply with the requirements regarding the acceptance of clients and engagements, and partner workload. (QC 20.03, .13, .15, and .17)

Specifically, these results indicate that the firm's management lacks the necessary commitment to –

- undertake only those engagements that it can reasonably expect will be completed with professional competence;
- assign work on those engagements to persons who have the proficiency required in the circumstances, specifically taking into consideration competing time demands on the firm's personnel when assigning individuals to lead issuer audits; and
- implement policies and procedures such that firm personnel perform audit work with due professional care.

The firm significantly increased its number of issuer audit clients from 80 in 2019 to 168 at the outset of the 2021 inspection (or by 110%). In accepting these new clients, the firm did not take into account the level of proficiency required for the firm's partners in the circumstances as well as competing time demands on the partners assigned to lead and execute the audits and perform the engagement quality reviews for all of its issuer audits. For example, during the year, there was one engagement partner who was responsible for 147 issuer audits. Further, there was one engagement quality reviewer who was responsible for 103 issuer audits and another who was responsible for 74 issuer audits. In addition, in one audit included in Part I.A,[3] a significant number of work papers related to several areas of the audit were prepared and/or reviewed subsequent to the report release date. Certain of the deficiencies identified in the performance of the work and in the firm's quality control system may have resulted from the increase in the number of issuer audit clients and the related increase in partner workload.

[3] Issuer C

The firm does not have appropriate processes in place for (1) determining whether the firm has, or can obtain, sufficient capacity prior to deciding whether to accept new issuer audits and (2) overseeing assignments for issuer engagement partners and engagement quality reviewers to ensure that workloads are manageable and to allow sufficient time for these engagement partners and engagement quality reviewers to discharge their engagement responsibilities with professional competence and due care.

C. Testing Estimates, Including Fair Value Measurements, and Using the Work of a Company's Specialist

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 estimates and using the work of a company's specialist will meet the requirements of AS 1105 and AS 2501. (QC 20.03 and .17)

In eight audits,[4] all of which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of estimates, including fair value measurements, and using the work of a company's specialist.

D. Testing Revenue and Related Accounts

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 related accounts will meet the requirements of AS 2301, AS 2310, AS 2315, and AS 2810. (QC 20.03 and .17)

In six audits,[5] all of which are included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of revenue and related accounts.

E. Evaluating Conformity with GAAP

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 evaluating whether the issuer's financial statements were presented in conformity with GAAP will meet the requirements of AS 2301 and AS 2810. (QC 20.03 and .17)

In six audits,[6] all which are included in Part I.A, the inspection team identified deficiencies related to the firm (1) not identifying and appropriately addressing a GAAP departure related to the omission of a related party disclosure; (2) not identifying, and evaluating the significance to the financial statement of, errors related to the use of incorrect exchange rates and omissions of required disclosures related to discontinued operations; and (3) not evaluating, or sufficiently evaluating, whether transactions were

[4] Issuers C, D, E, F, G, H, I, and J

[5] Issuers A, D, E, F, H, and I

[6] Issuers A, B, E, F, G, and J

accounted for in conformity with GAAP in the areas of goodwill, leases, revenue, long-lived assets, and intangible assets.

F. Testing Data and Reports used in Substantive Procedures

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 data and reports used in substantive procedures will meet the requirements of AS 1105. (QC 20.03 and .17)

In five audits,[7] all of which are included in Part I.A, the firm did not test, or sufficiently test, data and reports that it used in its substantive testing. In three of these audits,[8] the firm did not test, or sufficiently test, the accuracy and/or completeness of certain data or reports that it used in its substantive procedures. In two of these audits,[9] the firm did not evaluate the relevance and/or reliability of data the issuer used to develop assumptions in determining an accounting estimate.

G. 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 and AS 2810. (QC 20.03 and .17)

In two audits,[10] both of which are included in Part I.A, the inspection team identified deficiencies related to the testing of journal entries. In addition, in seven audits,[11] the firm did not consider 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. In addition, in one of these audits,[12] the firm did not perform sufficient procedures to test the journal entries selected for testing. In another audit,[13] the firm did not perform sufficient procedures to test the completeness of the population from which it selected journal entries for testing.

In one audit,[14] the firm did not perform procedures to obtain an understanding of the issuer's financial reporting process and controls over journal entries and other adjustments, including obtaining an

[7] Issuers C, D, E, G, and H

[8] Issuers C, E, and G

[9] Issuers D and H

[10] Issuers B and D

[11] Issuers A, B, C, E, F, G, and H

[12] Issuer A

[13] Issuer H

[14] Issuer H

understanding of the design of any specific controls over journal entries and other adjustments and determining whether they are suitably designed and have been placed in operation.

H. Evaluating Audit Results

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 evaluating audit results will meet the requirements of AS 2810. (QC 20.03 and .17)

In four audits,[15] the firm did not accumulate all corrected and/or uncorrected misstatements identified during the audit, other than those that were clearly trivial. In addition, in three of these audits[16] and in one other audit,[17] the firm did not evaluate whether the identified corrected and/or uncorrected misstatements might be indicative of fraud and, in turn, how they affect its evaluation of materiality and the related audit responses. In one audit,[18] the firm did not evaluate an uncorrected misstatement, individually and in combination with other misstatements, in relation to the specific accounts and disclosures involved and to the financial statements as a whole, taking into account relevant quantitative and qualitative factors.

I. Testing Related Party Transactions

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

In one audit,[19] which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of related party transactions.

J. Testing Discontinued Operations

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 discontinued operations will meet the requirements of AS 2301. (QC 20.03 and .17)

In one audit,[20] which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of the reclassification of certain amounts from equity to the gain on disposal and testing the accounts included in the calculation of the gains on the sales of discontinued operations.

---

[15] Issuers B, C, F, and I

[16] Issuers B, C, and I

[17] Issuer D

[18] Issuer F

[19] Issuer A

[20] Issuer B

K. Testing Business Combinations

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 business combinations will meet the requirements of AS 2301. (QC 20.03 and .17)

In one audit,[21] which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of completeness, existence, and accuracy of other assets acquired and liabilities assumed at the acquisition date.

L. Part of Audit Performed by Other Independent Auditors

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 1205. (QC 20.03 and .17)

In one audit,[22] the inspection team identified deficiencies related to the firm's use of the work of other accounting firms related to the firm's determination of the competence and professional reputation and standing of the other accounting firms and whether the other accounting firms were independent of the issuer under PCAOB and SEC independence rules.

M. Firm 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 five audits,[23] the firm appeared not to have satisfied applicable independence-related regulatory requirements.

N. Independence Policies and Procedures

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 the firm's policies and procedures with respect to independence-related requirements. (QC 20.03, .09, .10, and .20)

The firm's quality control policies and procedures related to compliance with independence requirements include maintaining a "restricted entities list" that identifies entities with which certain

[21] Issuer C

[22] Issuer H

[23] Issuers A, E, M, N, and O

types of relationships may impair the firm's independence. In four audits,[24] the issuer audit clients were not included in the firm's restricted entity list.

O. Audit Reports and Critical Audit Matters

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 3101. (QC 20.03 and .17)

In seven audits,[25] all of which are included in Part I.B, the inspection team identified deficiencies related to the firm's procedures for determining whether or not matters were critical audit matters. In addition, in five[26] of these audits, all of which are included in Part I.B, the inspection team identified deficiencies related to the firm's audit report, including the communication of critical audit matters.

P. 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 seven audits,[27] all of which are included in Part I.B, the inspection team identified deficiencies related to the firm's communications with the issuer's audit committee, or equivalent.

Q. 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 seven audits,[28] all of which are included in Part I.B, the inspection team identified deficiencies related to the firm's reporting on Form AP.

R. Compliance with Certain Audit Documentation Requirements

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the firm's policy on audit documentation; this policy is consistent with the requirements of AS 1215. (QC 20.03 and .17)

[24] Issuers B, F, K, and L

[25] Issuers A, B, C, E, F, H, and J

[26] Issuers A, C, E, H, and J

[27] Issuers A, B, C, E, F, G, and I

[28] Issuers A, D, F, G, H, I, and J

In one audit,[29] which is included in Part I.B, the inspection team identified a deficiency related to the firm's assembling for retention a complete and final set of audit documentation.

S. Engagement Quality Review

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

S.1. Knowledge and Competence of Engagement Quality Review Partners

The firm has not established policies and procedures to ensure that individuals serving as engagement quality review (EQR) partners possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the audit. Specifically, two individuals served as the EQR partners for approximately 96 percent of the firm's issuer audits, including all 10 audits included in Part I.A. One of these individuals did not appear to possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the EQR partner. The other individual did not appear to possess the level of knowledge and competence related to auditing required to serve as the EQR partner.

S.2. Sufficiency of Engagement Quality Review Procedures

In 10 audits,[30] all of which are included in Part I.A and seven[31] of which are included in Part I.B, 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 in which the engagement team had identified a significant risk, including in some cases a fraud risk. In addition, in seven of these audits,[32] the EQR partner did not identify deficiencies in the engagement team's (1) determination of whether or not matters were critical audit matters and/or (2) communication of critical audit matters in the audit report.

S.3. Documentation of Engagement Quality Reviews

The firm has not established policies and procedures for EQR partners to document their review of work papers. Specifically, the firm uses a single user sign-on account for EQR partners to document their reviews of work papers that are evidenced by the initials "DA," regardless of which EQR partner reviewed the work papers. Further, multiple firm personnel, including engagement partners, are able to access the user rights to this single user sign-on account and evidence a review by "DA."

[29] Issuer E

[30] Issuers A, B, C, D, E, F, G, H, I, and J

[31] Issuers A, B, C, E, F, H, and J

[32] Issuers A, B, C, E, F, H, and J

As a result, in 10 audits,[33] all of which are included in Part I.B, the firm's work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the EQR partner, including evidence that the EQR partner evaluated the engagement team's responses to the significant risks identified.

T. State Practice Qualification Requirements

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm will comply with relevant requirements to practice in a jurisdiction. (QC 20.17)

The inspection team observed that the firm had performed audits of the financial statements of six issuers[34] whose principal executive offices were located in states that required either registration or licensure with the state as a prerequisite to performing audits in the state or audits of entities with home offices located in the state. The firm was not registered or licensed with these states.

[33] Issuers A, B, C, D, E, F, G, H, I, and J

[34] Issuers A, B, D, F, H, and I

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.