
2022 Inspection Brown Armstrong Accountancy Corporation

(Headquartered in Bakersfield, California)

March 27, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PCAOB RELEASE NO. 104-2023-045A

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2023-045)



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2022 INSPECTION

In the 2022 inspection of Brown Armstrong Accountancy Corporation, 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 one audit of an issuer with a fiscal year ending in 2021. For the issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 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 or 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 2022 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 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

	2022	2019
Firm data		
Total issuer audit clients in which the firm was the principal auditor	1	2
Total engagement partners on issuer audit work¹	1	1
Audits reviewed		
Total audits reviewed	1	1
Audits in which the firm was the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	1	1
Percentage of audits with Part I.A deficiencies	100%	100%

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.

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 2022 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.

2022		2019	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	1	Revenue and related accounts	1
Income taxes	1	Long-lived assets	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(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

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 audits 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 audits 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 audits 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 audits 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 audits 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) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard 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 – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, for which the firm identified a significant risk.

Description of the deficiencies identified

The issuer operates a recreational vehicle (RV) resort and earns revenue from site rental fees. The issuer also earns revenue from other services and from retail sales from a general store and recreational vehicle parts store.

To test site rental revenue, the firm selected a sample from a system-generated arrival report for a dual-purpose test of controls and substantive procedures. The firm's procedures did not address whether revenue was recognized only when customers occupied spaces, as the firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of the check in and check out dates from the system-generated arrival report used in its testing. (AS 1105.10) In addition, the sample size used in its substantive procedures was too small to provide sufficient appropriate audit evidence because the firm used a sample size for control testing, which did not take into account tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23, .23A, and .44)

For revenue recognized from retail sales and one type of service, the firm did not perform any substantive procedures to test this revenue. (AS 2301.08 and .11)

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 certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion. This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the 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 audit reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform procedures to determine whether the journal entry population from which it made its selections was complete. In this instance, the firm was non-compliant with AS 1105, *Audit Evidence*.
- In the audit 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 this instance, the documentation of the engagement quality review was non-compliant with AS 1220, *Engagement Quality Review*.
- In the audit reviewed, the firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures. In addition, the firm did not

communicate to the issuer's audit committee changes to the significant risks that had initially been identified and communicated to the audit committee and the reasons for such changes. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In the audit reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In the audit reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. 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*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.
- In the audit reviewed, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. 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 the audit reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes an instance of potential non-compliance that we identified, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instance of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified one instance for one issuer in

one audit reviewed in which this circumstance appears to have occurred related to certain non-audit services.

Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

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

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

In one audit,² which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of revenue.

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 1105 and AS 2401. (QC 20.03 and .17)

In one audit,³ which is included in Part I.B, the inspection team identified deficiencies related to the firm's fraud procedures.

² Issuer A

³ Issuer A

C. 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 one audit,⁴ which is included in Part I.B, the inspection team identified a deficiency related to the firm's reporting on Form AP.

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 one audit,⁵ which is included in Part I.B, the inspection team identified deficiencies related to the firm's communications with the issuer's audit committee.

E. 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 with respect to critical audit matters. (QC 20.03 and .17)

In one audit,⁶ which is included in Part I.B, the inspection team identified a deficiency related to the firm's procedures for determining whether or not matters were critical audit matters. In addition, in that same audit, the inspection team identified a deficiency related to the communication of critical audit matters in the firm's audit report.

F. 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 reviewers (EQR) will meet the requirements of AS 1220. (QC 20.03 and .17)

In one audit,⁷ which is included in Part I.A and Part I.B, the inspection team identified deficiencies in areas that the EQR was required to evaluate. In this audit, the EQR did not identify a deficiency in an area in which the engagement team had identified a significant risk. In addition, in this audit, the EQR did not identify a deficiency in the engagement team's determination of whether or not matters were critical audit matters. In this same audit, the firm's work papers did not contain sufficient information to

⁴ Issuer A

⁵ Issuer A

⁶ Issuer A

⁷ Issuer A

enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the EQR, including evidence that the EQR evaluated the engagement team's responses to the significant risks identified.

G. 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. 20.03, .09, and .10)

In one audit,⁸ which is included in Part I.C, the firm appeared not to have satisfied an applicable independence-related regulatory requirement.

⁸ Issuer A

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the 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.

March 17, 2023

George R. Botic
Director, Division of Registration and Inspections
ResponsestoDraftReport@pcaobus.org

VIA EMAIL

Re: Firm ID #237, Response to Report on 2021 Inspection of Brown Armstrong Accountancy Corporation

Dear Mr. Botic:

Pursuant to Section 104(f) of the Sarbanes-Oxley Act of 2002 (the Act), 15 U.S.C. SS 7214(f), and Public Company Accounting Oversight Board (PCAOB or "the Board") Rule 4007(a), the firm hereby provides a written response to the Draft Report on the 2021 Inspection of Brown Armstrong Accountancy Corporation (Brown Armstrong).

Brown Armstrong strives to maintain a high level of audit quality and appreciates the opportunity to implement additional quality control procedures based on the feedback received as a result of the Board's inspections.

Part I.A. identified deficiencies in the financial statement audit related to Revenue for which the firm identified a significant risk. The inspection team noted deficiencies in the firm's procedures related to the accuracy and completeness of certain revenues and a lack of substantive procedures related to retail sales revenue. We appreciate the feedback from the inspection team and have addressed the deficiency in the following manner:

We have documented specific procedures performed during the test of controls to test the accuracy and completeness of certain revenues and added specific substantive procedures for retail operations revenue and spotting fees revenue.

Part I.B. identified deficiencies related to instances of non-compliance with PCAOB standards or rules. We have addressed the deficiencies as follows:

- The firm did not perform procedures to determine whether the journal entry population from which it made its selection was complete.

To further support the adequacy of the engagement team's response to the risk of management override of controls, we have added specific procedures to be performed to verify the completeness of the population of journal entries.

BAKERSFIELD
4200 Truston Avenue, Suite 300
Bakersfield, CA 93309
661-324-4971

FRESNO
10 River Park Place East, Suite 208
Fresno, CA 93720
559-476-3592

STOCKTON
2423 West March Lane, Suite 202
Stockton, CA 95219
209-451-4803

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- The workpapers did not contain sufficient evidence that the engagement quality reviewer (EQR) evaluated the engagement team's response to the significant risks identified.

The firm will improve documentation of specific workpapers reviewed by the EQR by requiring each individual workpaper be signed off at the workpaper level, and time-stamped at the time of review.

- The firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures. In addition, the firm did not communicate to the issuer's audit committee changes to the significant risks that had initially been identified and communicated to the audit committee and the reasons for such changes.

A separate line item has been added to our engagement quality review checklist to ensure the reviewer verifies all audit committee communication is reviewed and will specifically request verification of communication of changes from the initial risk assessment to the final risk assessment.

- When testing journal entries for evidence of possible material misstatements due to fraud, the firm did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing.

To further document the engagement team's consideration of characteristics of potentially fraudulent journal entries, we have added a step to specifically document how the sample of journal entries is selected, considering characteristics of potentially fraudulent entries or adjustments.

- The engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements.

We will update our communication workpapers to include additional documentation of matters discussed with the audit committee and will add a review step in our engagement quality review checklist to ensure the reviewer verifies all matters communicated to the audit committee are appropriately evaluated. Key engagement members will participate in training that specifically addresses the requirements.

- The firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation.

We will update our communication workpapers to include additional documentation of matters discussed with the audit committee and will add a review step in our engagement quality review checklist to ensure the reviewer verifies all matters communicated to the audit committee are appropriately evaluated for consistency. Key engagement members will participate in training that specifically addresses the requirements.

George R. Botic
Director, Division of Registration and Inspections
March 17, 2023
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- The firm did not file its report on Form AP by the relevant deadline.

The form was filed on the forty-first day after the filing the report, which was beyond the thirty-five day requirement. The firm has added a control procedure to ensure all forms are filed timely.

Part I.C. identified one instance for one issuer in one audit reviewed in which the firm did not obtain audit committee pre-approval for non-audit services.

The firm obtained pre-approval from the audit committee for the subsequent service provided and will ensure all audit and non-audit services are pre-approved in the future.

Part II: Observations related to Quality Control noted the items identified in Parts I.A. and I.B. of the inspection report indicate the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements.

Remedial Actions for each item identified as a deficiency during the inspection were addressed above. In addition, the engagement team reviewed all inspection comment forms prior to the commencement of the subsequent audit to train team members and ensure sufficient procedures were performed and will continue to be performed in the future. Monitoring procedures have been established by adding steps to the engagement quality review checklist and will be performed at the conclusion of each audit. The firm's annual internal inspection will include a review of engagement quality control procedures related to issuer audits to verify the firm's system of quality control provides reasonable assurance that firm personnel will comply with applicable professional standards and requirements.

Brown Armstrong respectfully requests the opportunity to dialogue with the inspections staff early in the 12-month remediation period, expand remediation plans that describe how the firm intends to address the quality control criticisms, and share those plans with the inspections staff.

Sincerely,

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



By: Ryan L. Nielsen, CPA

RLN:jav
Enclosure

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