2022 Inspection Fruci & Associates II, PLLC

(Headquartered in Spokane, Washington)

June 7, 2023

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

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(Includes portions of Part II of the full report
that were not included in PCAOB Release No. 104-2023-093)

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2022 INSPECTION

In the 2022 inspection of Fruci & Associates II, PLLC, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review three audits of issuers with fiscal years generally ending in 2021. For each 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	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	31	41
Total engagement partners on issuer audit work[1]	4	4
Audits reviewed		
Total audits reviewed	3	4
Audits in which the firm was the principal auditor	3	4
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	2	3
Percentage of audits with Part I.A deficiencies	67%	75%

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		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	2	**Revenue and related accounts**	3
Related party transactions	2	**Equity and equity-related transactions**	1
Other assets	1	**Long-lived assets**	1
Inventory	1	**Inventory**	1
Debt	1	**Business combinations**	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). 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 areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Debt**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm did not perform a substantive test of details over revenue. (AS 2301.08 and .13)

The firm's substantive analytical procedures over revenue were insufficient because:

- The firm did not determine whether the expectations it used in these analytical procedures were based on predictable relationships (AS 2305.13 and .14); and

- The firm used certain system-generated sales data in its substantive analytical procedures but did not perform any procedures to test, or test any controls over, the accuracy and completeness of the data. (AS 2305.16)

With respect to **Debt:**

For a certain loan payable, the firm did not perform sufficient procedures to test the existence, valuation, rights and obligations, classification and related disclosures, as the firm's procedures were limited to (1) preparing a roll forward, noting no change in the balance, (2) agreeing the loan balance at the beginning of the year to prior year financial statements audited by the predecessor auditor, and (3) agreeing the ending balance to the trial balance. (AS 2301.08)

Issuer B

Type of audit and related areas affected

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

With respect to **Revenue,** for which the firm identified a fraud risk:

The firm did not perform procedures to evaluate the relevance and reliability of certain external data the issuer used to record revenue and that the firm used in its testing of revenue. (AS 1105.04 and .06)

With respect to **Inventory,** for which the firm identified a fraud risk:

The firm did not perform sufficient procedures to test the existence of certain inventory located at external warehouses. Although the firm sent confirmations to the outside custodians, no responses were received. The firm's alternative procedures were not sufficient because the firm limited its procedures to agreeing the total quantity of the inventory located at the warehouses to reports provided by the owner of the warehouses to the issuer. (AS 2510.14)

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(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.

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 three audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient 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 one of two audits reviewed, the firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures and all of the issuer's critical accounting policies and estimates. 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 related to (1) the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit; (2) all of the issuer's critical accounting policies and estimates; and (3) a significant change to the planned audit strategy for an identified significant risk that had initially been communicated to the audit committee and the reasons for such change. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In the three audits 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, or required to be communicated, to the issuer's audit committee 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 one of three audits 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 one audit, the firm did not document the computation of total audit hours and the method used to estimate hours incurred by other auditors. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one audit reviewed, the firm did not provide the audit committee the required independence communications prior to accepting the audit. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

PART I.C: INDEPENDENCE

In the 2022 inspection, we did not identify, and 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. Although this section does not include any instances of potential non-compliance that we identified or the firm brought to our attention, there may be 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.

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.

* * * *

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 two audits,[2] both of which are included in Part I.A * * * * , the inspection team identified deficiencies in areas that the EQR was required to evaluate. In these audits, the EQR did not identify a deficiency in an area in which the engagement team had identified a fraud risk. * * * *

[2] 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.

FRUCI & ASSOCIATES II
A Professional Limited Liability Company
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March 30, 2023

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

Re: Response to Part I of Draft Report on 2022 Inspection of Fruci & Associates II, PLLC

Dear Mr. Botic:

We appreciate the opportunity to provide our response to Part I of the Public Company Accounting Oversight Board's (the "PCAOB" or "Board") Draft Report on the 2022 Inspection of Fruci & Associates II, PLLC (the "Draft Report").

We are fully supportive of the inspection process, a fundamental component of the PCAOB's mission, and believe the Board's comments and observations enhance the ability to achieve our commitment to the highest standards of audit quality. We continually monitor our internal processes, procedures, and practices to identify improvements and we understand the value derived from the inspection process in order to protect the interests of investors and the broader capital markets in which the public participates and on which they rely.

We have evaluated the matters described in *Part I – Inspection Observations* of the Draft Report and have taken actions where appropriate in accordance with both PCAOB standards and our policies. Our evaluation included those steps that we considered necessary to comply with *AS 2901, Consideration of Omitted Procedures After the Report Date,* and *AS 2905, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.* Our evaluation also included, where necessary, performing additional audit procedures and/or supplementing our audit documentation to more clearly and accurately describe the conclusions reached resulting from those procedures. None of the matters identified by the PCAOB or the results of procedures subsequently performed impacted our previously issued reports on the financial statements.

We believe that, as with any audit process, judgments are necessary to the inspection process and professionals can reach different conclusions about the adequacy of audit evidence in a particular circumstance. In those instances where such differences exist related to the inspection observations detailed in the Draft Report, they generally related to the significance of the observation in relation to the audit evidence taken as a whole rather than the specific nature of the observation. We have taken each of the Board's observations into account in formulating our plan to continuously improve audit quality.

We appreciate the professionalism demonstrated by the inspection team and believe the comments, observations, and dialogue resulting from the inspection process assists us in improving our audit work and underlying control systems. We look forward to continually working together with the PCAOB in the most effective manner toward our shared goal of enhanced audit quality.

Very truly yours,

Fruci & Associates II, PLLC

Fruci & Associates II, PLLC