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# 2022 Inspection Dylan Floyd Accounting & Consulting

(Headquartered in Newhall, California)

August 24, 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**

**PCAOB RELEASE NO. 104-2023-147A**

(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2023-147)



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## 2022 INSPECTION

In the 2022 inspection of Dylan Floyd Accounting & Consulting, 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 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.

### 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
<b>Firm data</b>		
<b>Total issuer audit clients in which the firm was the principal auditor</b>	3	8
<b>Total engagement partners on issuer audit work<sup>1</sup></b>	1	1
<b>Audits reviewed</b>		
<b>Total audits reviewed</b>	3	1
<b>Audits in which the firm was the principal auditor</b>	3	1
<b>Integrated audits of financial statements and internal control over financial reporting (ICFR)</b>	0	0
<b>Audits with Part I.A deficiencies</b>	3	1
<b>Percentage of audits with Part I.A deficiencies</b>	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.

<sup>1</sup> The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *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	2	Revenue and related accounts	1
Significant transactions	2	Business combinations	1
Long-lived assets	1	Goodwill and intangible assets	1
Inventory	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

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, a **Significant Transaction**, **Revenue**, **Significant Accounts**, and **Journal Entries**.

## Description of the deficiencies identified

With respect to **Audit Evidence**:

Prior to the report release date, the firm did not complete all necessary auditing 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 **Significant Transaction**:

The issuer engaged in a significant transaction. The firm did not perform any procedures to evaluate whether the transaction was accounted for in conformity with GAAP. (AS 2301.08)

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

The firm did not perform any procedures to evaluate whether certain transactions were appropriately presented as revenue in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2301.08 and .13)

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

To test certain significant accounts, the firm's substantive procedures included confirmation of the balances. The issuer sent the confirmation request on behalf of the firm and received the response directly from the recipient of the request. The firm did not maintain control of the confirmation request and response through direct communication with the intended recipient of the confirmation request. (AS 2310.28) For one of these significant accounts, the firm did not perform substantive procedures, beyond comparing the amount to the confirmation, to test the valuation of the account. (AS 2501.07)

The firm did not identify and evaluate a departure from GAAP related to the issuer's presentation of a significant account. (AS 2810.30 and .31)

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

The firm did not select journal entries and other adjustments for testing. (AS 2401.61)

## Issuer B

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, a **Significant Transaction**, **Long-Lived Assets**, and **Journal Entries**.



## Description of the deficiencies identified

With respect to **Audit Evidence**:

Prior to the report release date, the firm did not complete all necessary auditing 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 **Significant Transaction**:

The issuer engaged in a significant transaction. The firm did not perform any procedures to evaluate whether the transaction was accounted for in conformity with GAAP. (AS 2301.08)

With respect to **Long-Lived Assets**:

The firm did not perform any procedures to test the appropriateness of the capitalization of certain costs to long-lived assets. (AS 2301.08)

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

The firm did not select journal entries and other adjustments for testing. (AS 2401.61)

## Issuer C

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, **Journal Entries**, and **Inventory**.

## Description of the deficiencies identified

With respect to **Audit Evidence**:

Prior to the report release date, the firm did not complete all necessary auditing 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 **Journal Entries**, for which the firm identified a fraud risk:

For one of the issuer's subsidiaries, the firm did not perform any procedures to identify and select journal entries and other adjustments for testing, without having an appropriate basis for excluding that subsidiary. (AS 2401.61)

For another of the issuer's subsidiaries, the firm identified journal entries that met certain criteria for testing. The firm did not examine the underlying support for the journal entries and, instead, limited its procedures to inquiry of management. (AS 2401.61)

With respect to **Inventory**:

The firm's substantive procedures at year end to test certain inventory included performing physical inventory count procedures using a report obtained from the issuer. The firm did not perform any procedures to test the completeness of the report. (AS 1105.10) In addition, the firm did not perform procedures, beyond inquiry and observation of the physical condition of inventory, to test the price of this inventory and the related reserve. (AS 2301.08; AS 2501.07)

The issuer wrote off certain other inventory at year end. The firm did not perform any procedures to evaluate this write-off. (AS 2301.08)

## 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 the three audits 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, or that it used to identify selections, was complete. In these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.
- In the three audits reviewed, the firm added audit documentation subsequent to the 45-day period following the report release date and did not indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In the three audits reviewed, the firm did not include all of the required information in its engagement completion document. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In the three audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) the significant risks identified through its risk assessment procedures and (2) the firm's evaluation of the issuer's ability to continue as a going concern. In addition, in one of these three audits, the firm did not make a required communication to the issuer's audit committee related to the issuer's critical accounting policies and practices and critical accounting estimates. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the three audits reviewed, the firm made inaccurate communications to the issuer's audit committee related to critical accounting estimates and/or significant unusual transactions. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In two of three audits reviewed, the firm did not identify and assess the risks of material misstatement related to one or more significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of three audits 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 three audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to its evaluation of the issuer's identification of, accounting for, and disclosure of its relationships and transactions with related parties. In these instances, the firm was non-compliant with AS 2410, *Related Parties*.
- In the three audits reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In two of these audits, the firm included an amount for cash flows from operations in the explanatory paragraph that was incorrect. In these instances, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*.
- In one of three audits reviewed, the firm did not take appropriate action with respect to the issuer's omission of a material weakness from management's report on ICFR included in the Form 10-K. In this instance, the firm was non-compliant with AS 2710, *Other Information in Documents Containing Audited Financial Statements*.
- In one of three audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. 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 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 the three audits reviewed, the firm's communication of critical audit matters in the audit report did not describe for a matter the principal considerations that led the firm to determine that the matter was a critical audit matter. 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 two 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 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*.

## 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 instances 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 instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

- Under Rule 2-01(c)(4) of Regulation S-X, an accountant is not independent if it acts, temporarily or permanently, as a director, officer, or employee of an audit client, or performs any decision-making, supervisory, or ongoing monitoring function for the audit client, at any point during the audit and professional engagement period. We identified one instance for one issuer in one audit reviewed in which this circumstance appears to have occurred.
- 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 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. Firm Management's Approach to Quality Control

The firm has a responsibility to ensure that it complies with PCAOB standards in its issuer audit practice. (QC 20.03) In a significant portion of the firm's audit work reviewed in this inspection, however, the inspection team identified deficiencies in the performance of the work. The high incidence of such inspection observations is consistent with the incidence of such observations in the previous inspection of the firm. Moreover, the substance of certain of the observations in this inspection is similar to the substance of observations in the previous inspection, including the observations of deficiencies in evaluating conformity with GAAP, testing estimates, independence, audit reports, communications with audit committees, compliance with certain audit documentation requirements, and engagement quality review (also identified in the 2019 inspection of the firm). These results indicate that the firm's management lacks the necessary commitment to an approach to quality control that includes sufficient attention to:

- undertaking only those engagements that are reasonably within its professional competence;
- assessing whether it has the technical training and proficiency required in the circumstances, and recognizing that "the circumstances" include the amount of time that the firm can realistically devote to any particular audit in light of other audits and other business conducted by the firm;
- referring to authoritative literature or other sources and consulting, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues);

- reviewing its work, and appropriately emphasizing the importance of engagement quality reviews; and
- acting with the objectivity necessary to perform audit work appropriately.

Identifying the underlying causes for the poor inspection results may assist the firm in assessing the need for changes or enhancements to its system of quality control. The firm should implement changes in its policies and procedures necessary to provide reasonable assurance that it complies with the professional standards applicable to its issuer audit practice.

## B. Technical Competence

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm assigns work to personnel who have the technical training and proficiency required by PCAOB standards. (QC 20.03, .13, and .17)

In three audits,<sup>2</sup> all of which are included in Part I.A, the inspection team identified deficiencies that were attributable, at least in part, to the engagement personnel lacking sufficient technical knowledge, experience, or training necessary to enable them to fulfill the responsibilities of the work assigned. Specifically, the engagement personnel did not have an appropriate understanding of the relevant accounting and PCAOB standards.

## C. Audit Evidence

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will complete all necessary audit procedures and obtain sufficient evidence to support the representations in the auditor's report prior to the report release date to comply with AS 1105 and AS 1215. (QC 20.03 and .17)

In three audits,<sup>3</sup> all of which are included in Part I.A, the inspection team identified deficiencies related to the firm completing all necessary audit procedures and obtaining sufficient evidence to support the representations in the auditor's report prior to the report release date.

## D. 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)

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<sup>2</sup> Issuers A, B, and C

<sup>3</sup> Issuers A, B, and C

In three audits,<sup>4</sup> all of which are included in Part I.A and all of which are included in Part I.B, the inspection team identified deficiencies related to firm's fraud procedures with respect to testing journal entries.

## 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 two audits,<sup>5</sup> both of which are included in Part I.A, the inspection team identified deficiencies related to the firm (1) not identifying and evaluating a GAAP departure related to the presentation of a significant account and (2) not evaluating whether transactions were accounted for in conformity with GAAP that were significant or related to revenue.

## F. Testing Estimates

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 will meet the requirements of AS 2501. (QC 20.03 and .17)

In two audits,<sup>6</sup> both of which are included in Part I.A, the inspection team identified deficiencies related to the firm's testing of estimates.

## G. Use of Confirmations

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 when obtaining confirmations will meet the requirements of AS 2310. (QC 20.03 and .17)

In one audit,<sup>7</sup> which is included in Part I.A, the inspection team identified a deficiency related to the firm maintaining control of the confirmation request and response.

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<sup>4</sup> Issuers A, B, and C

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

<sup>6</sup> Issuers A and C

<sup>7</sup> Issuer A



## H. Testing Long-Lived Assets

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 long-lived assets will meet the requirements of AS 2301. (QC 20.03 and .17)

In one audit,<sup>8</sup> which is included in Part I.A, the inspection team identified a deficiency related to the firm's testing of the appropriateness of the capitalization of certain costs to long-lived assets.

## I. Risk Assessment

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 assessing risks will meet the requirements of AS 2110. (QC 20.03 and .17)

In two audits,<sup>9</sup> both of which are included in Part I.B, the inspection team identified deficiencies related to risk assessment.

## J. 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,<sup>10</sup> which is included in Part I.C, the firm appeared not to have satisfied certain applicable independence-related regulatory requirements.

## K. 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 2415 and AS 3101. (QC 20.03 and .17)

In three audits,<sup>11</sup> 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 all 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.

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<sup>8</sup> Issuer B

<sup>9</sup> Issuers A and B

<sup>10</sup> Issuer C

<sup>11</sup> Issuers A, B, and C

## L. 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 and AS 2410. (QC 20.03 and .17)

In three audits,<sup>12</sup> 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.

## M. 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 requirements of AS 1215. (QC 20.03 and .17)

In three audits,<sup>13</sup> all of which are included in Part I.B, the inspection team identified deficiencies related to the engagement completion document and adding documentation subsequent to the 45-day period following the report release date.

## N. 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 three audits,<sup>14</sup> all of which are included in Part I.A and all of which are included in Part I.B, 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. In addition, in these audits, the EQR 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.

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<sup>12</sup> Issuers A, B, and C

<sup>13</sup> Issuers A, B, and C

<sup>14</sup> Issuers A, B, and C

## 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.

