2023 Inspection Nichols, Cauley & Associates, LLC

(Headquartered in Dublin, Georgia)

November 16, 2023

PCAOB RELEASE NO. 104-2024-013

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2023 INSPECTION

In the 2023 inspection of Nichols, Cauley & Associates, LLC, 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.

2023 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 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 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

	2023	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	1	1
Total engagement partners on issuer audit work[1]	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	1
Audits with Part I.A deficiencies	1	0
Percentage of audits with Part I.A deficiencies	100%	0%

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 2023 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.

2023		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	1	**Revenue and related accounts**	1
Cash and cash equivalents	1	**Cash and cash equivalents**	1
Other investments	1	**Other investments**	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 instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A) 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 – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Equity-Method Investments**.

Description of the deficiencies identified

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

The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of certain data it used in substantively testing revenue. (AS 1105.10)

With respect to **Equity-Method Investments**:

The issuer held equity-method investments with various investees. During the year, the majority shareholder of one of the investees created a new entity in which the issuer also acquired a percentage of ownership.

The issuer prepared a qualitative assessment of impairment of the investee and the related new entity. As part of the qualitative assessment, the issuer engaged a valuation specialist to calculate the values of the investment and related new entity. The following deficiencies were identified:

- The firm did not evaluate how the issuer considered contrary evidence, included in the firm's work papers, in reaching its conclusion in the qualitative assessment. (AS 2301.08; AS 2810.03)

- The firm did not evaluate the reliability of information from an external source that the issuer used in the qualitative assessment. (AS 1105.04 and .06)

- The firm did not perform procedures, beyond obtaining and reading the company's specialist report, to test the valuation of the investment and related new entity. Further, the firm did not perform procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

In addition, the following deficiencies were identified related to the firm's testing of the investment and the related new entity:

- The issuer reported the valuation of the investee and new entity based on investee financial results, including unaudited financial statements. The firm did not evaluate whether the differences between the issuer's carrying amount of its investment in the investee and new entity and the issuer's underlying equity in the net assets of the investee and the new entity were in conformity with FASB ASC Topic 323, *Investments-Equity Method and Joint Ventures*. (AS 1105.B4)

- The firm did not identify and evaluate departures from GAAP related to the issuer's omission of disclosures required by FASB ASC Topic 323 and FASB ASC Topic 850, *Related Party Disclosures*. (AS 2410.17; AS 2810.30 and .31)

- The firm did not evaluate the business purpose (or lack thereof) of the transaction to create the new entity, including whether it may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets given certain facts regarding the transaction. (AS 2401.67)

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 did not make a required communication to the audit committee related to corrected misstatements. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- 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 one matter that was required to be communicated to the 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 certain critical audit matters 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.*

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)(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. In one audit reviewed, we identified seven instances for one issuer 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.

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.

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October 19, 2023

VIA Email – ResponsestoDraftReport@pcaobus.org

Mr. George Botic
Deputy Director, Small Firm Program
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 of Inspection
Nichols, Cauley & Associates, LLC

Dear Mr. Botic,

We are pleased to submit our response to the Public Company Accounting Oversight Board's (the "Board") draft report (the "Report") dated September 22, 2023 on its inspection of Nichols, Cauley & Associates, LLC (the "Firm") performed during 2023. We are supportive of the Board's mission and believe the inspections by the Board are of significant benefit to the public, our profession and our Firm.

With respect to the issues presented in Part I.A of the Report, we believe this reflects the fact that accounting and auditing standards are highly complex and require significant professional judgment as it relates to audit risk assessments, the extent of testing and determining what constitutes sufficient documentation. The sufficiency of audit documentation necessary to document the audit procedures performed and support an audit opinion is determined through professional judgment based on a specific set of facts and circumstances. While audit documentation is an important part of the audit process, consensus among auditing professionals regarding the sufficiency of documentation varies significantly.

We believe, in our professional judgment, sufficient audit procedures were performed by the engagement team to support our opinion on the issuer's financial statements. Consequently, we believe the noted issues presented by the Board are the result of a lack of sufficient explanatory audit documentation in the judgement of the Board.

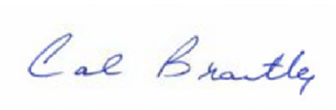
Atlanta | Calhoun | Canton | Dalton | Dublin
Fayetteville | Kennesaw | Rome | Warner Robins

We have considered these matters in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*, AU 560, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, and AS 2901, Consideration of Omitted Procedures After the Report Date*, and performed additional procedures. Based upon the additional audit procedures performed, no new information came to our attention that caused us to believe our previously issued audit report should be changed.

With respect to the issues presented in Part I.B and Part I.C of the Report, we have considered these matters in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*, AU 560, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report, and* AS 2901, *Consideration of Omitted Procedures After the Report Date*. Based upon our consideration, no new information came to our attention that caused us to believe our previously issued audit report should be changed. In specific reference to the issue noted in Part I.C of the Report regarding Independence, we believe our Firm substantially complied with the pre-approval requirements.

In closing, we would like to take this opportunity to thank the Board and its inspection team for the professionalism exhibited during our Firm's inspection.

Sincerely,



Cal Brantley, CPA