2022 Inspection WithumSmith+Brown, PC

(Headquartered in Princeton, New Jersey)

December 20, 2023

PCAOB RELEASE NO. 104-2024-044

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

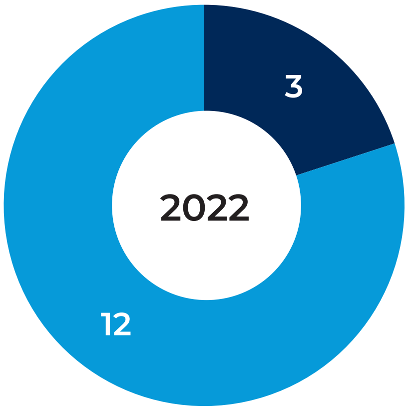
Our 2022 inspection report on WithumSmith+Brown, PC provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits 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 internal control over financial reporting (ICFR).
- Part I.B of the report discusses certain deficiencies ("Part I.B 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.
- Part I.C of the report, which is new commencing with our 2022 inspection reports, discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence ("Part I.C deficiencies").

If we include a Part I.A or Part I.B deficiency in this 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. If we include a Part I.C deficiency in this report, it does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. If we include a deficiency in Part I.A, Part I.B, or Part I.C of this report, it does not necessarily mean that the firm has not addressed the deficiency.

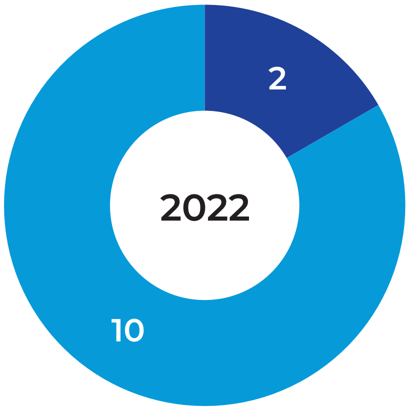
Overview of the 2022 Deficiencies Included in Part I

Twelve of the 15 audits we reviewed in 2022 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's substantive testing of equity and equity-related transactions, business combinations, and revenue and related accounts.



80% Part I.A deficiency rate

- Audits without Part I.A deficiencies
- Audits with Part I.A deficiencies



- Deficiencies in both financial statement and ICFR audits
- Deficiencies in the financial statement audit only
- Deficiencies in the ICFR audit only

The most common Part I.A deficiencies in 2022 related to testing an estimate, evaluating the appropriateness of the issuer's accounting method or disclosure, testing data or reports used in substantive testing, and testing journal entries.

The Part I.B deficiencies in 2022 related to fraud, the firm's audit report, audit committee communications, critical audit matters, and Form AP.

The Part I.C deficiency in 2022 related to audit committee pre-approval.

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2022 INSPECTION

In the 2022 inspection of WithumSmith+Brown, PC, the PCAOB assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 15 audits of issuers with fiscal years 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.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2022 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
    - **Part I.A:** Deficiencies 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:** 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.
    - **Part I.C:** Instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules 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.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. 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.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2022 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make the majority of our 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. We also select audits randomly to provide an element of unpredictability.

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 constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 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 two inspections. We use a combination of risk-based and random methods 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 year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

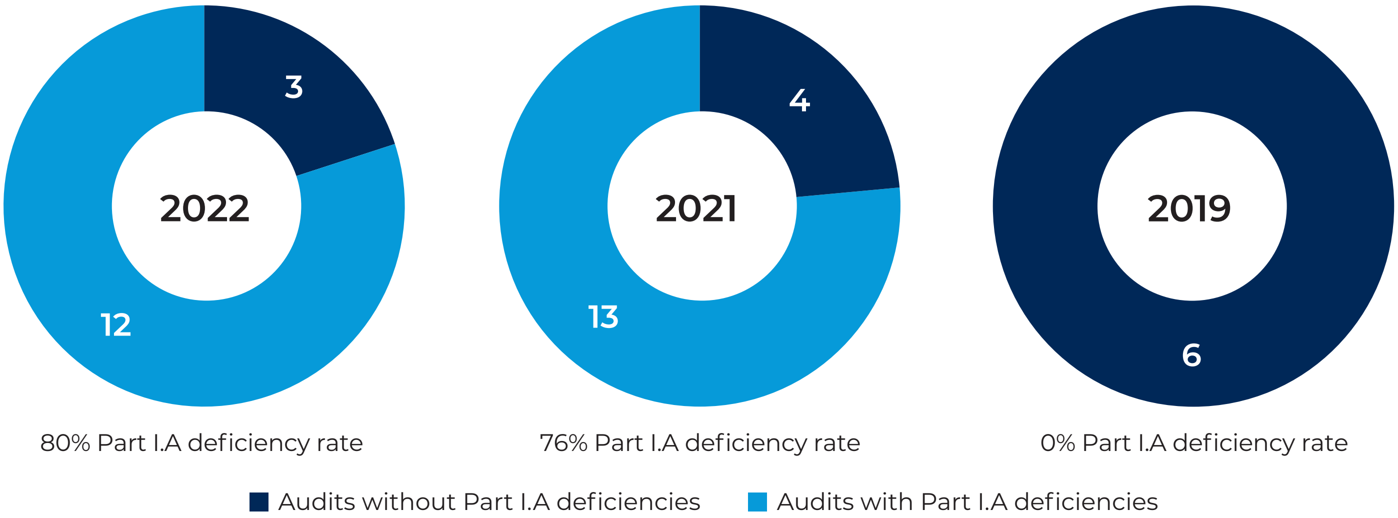
Audits Selected for Review

	2022	2021	2019
Total audits reviewed			
Total audits reviewed	15	17	6
Selection method			
Risk-based selections	13	11	6
Random selections	2	4	0
Target team selections[1]	0	2	0
Total audits reviewed	**15**	**17**	**6**
Principal auditor			
Audits in which the firm was the principal auditor	15	17	6
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**15**	**17**	**6**
Audit type			
Integrated audits of financial statements and ICFR	2	0	1
Financial statement audits only	13	17	5
Total audits reviewed	**15**	**17**	**6**

[1] For further information on the target team's activities in 2021, refer to that inspection report.

Part I.A Deficiencies in Audits Reviewed

In 2022, 11 of the 12 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, 10 of the 13 audits appearing in Part I.A were selected for review using risk-based criteria.

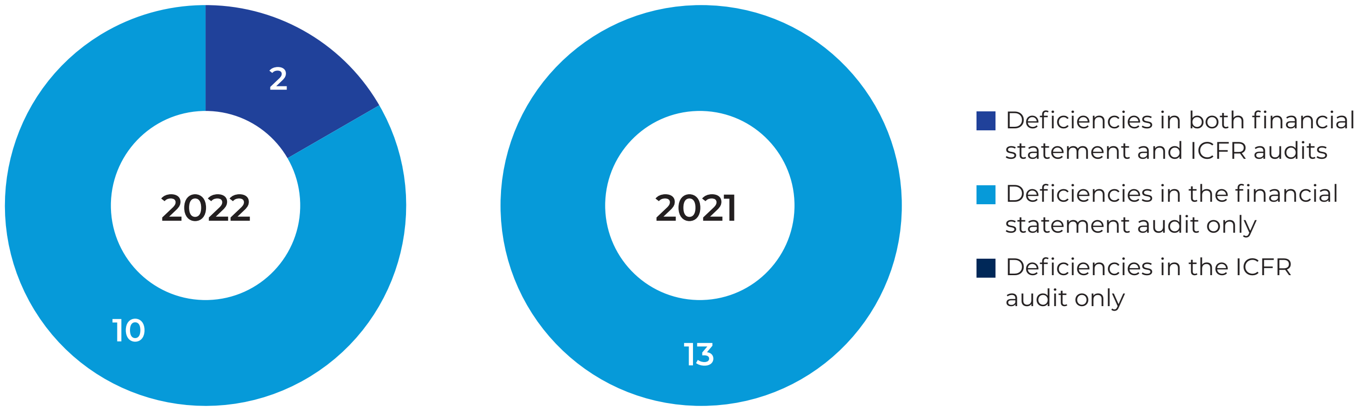


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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.

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 Part I.A or Part I.B 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.

Audits Affected by the Deficiencies Identified in Part I.A



Our 2021 inspection procedures involved eight audits, all of which were audits of SPACs or de-SPACs, for which the issuer, unrelated to our review, restated its financial statements to correct one or more misstatements and the firm revised and reissued its report on the financial statements.

The following tables and graphs summarize inspection-related information, by inspection year, for 2022 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2022	2021	2019
Did not sufficiently test an estimate	8	9	0
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	4	11	0
Did not perform sufficient testing of data or reports used in the firm's substantive testing	3	2	0
Did not perform sufficient testing of journal entries	3	0	0

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2022	2021	2019
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	1	0	0
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	1	0	0

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). 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			2021			2019		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Equity and equity-related accounts	8	5	Equity and equity-related accounts	12	9	Investment securities	3	0
Revenue and related accounts	7	4	Investment securities	5	0	Equity and equity-related accounts	3	0
Investment securities	6	0	Revenue and related accounts	5	4	Cash and cash equivalents	2	0
Business combinations	5	4	Business combinations	4	2	Participant and employer contributions	1	0
Expenses	2	1	Goodwill and intangible assets	3	1	Revenue and related accounts	1	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2022		2021		2019	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Equity and equity-related accounts	5	8	9	12	0	3
Business combinations	4	5	2	4	0	0
Revenue and related accounts	4	7	4	5	0	1

Equity and equity-related accounts: The deficiencies in 2022 primarily related to substantive testing of the significant assumptions used by the issuer to determine the fair value of warrant liabilities. The deficiencies in 2021 related to evaluating the appropriateness of the issuer's accounting method for certain warrants and certain redeemable shares and, in some cases, substantive testing of the significant assumptions used by the issuer to determine the fair value of the warrants that were subsequently recorded as liabilities.

Business combinations: The deficiencies in 2022 primarily related to substantive testing of significant assumptions used by the issuer to determine the fair values of acquired assets. The deficiencies in 2021 primarily related to evaluating the issuer's accounting for a business combination.

Revenue and related accounts: The deficiencies in 2022 primarily related to testing information the firm used in its substantive testing of revenue. The deficiencies in 2021 primarily related to substantive testing of revenue.

Auditing Standards Associated with Identified Part I.A Deficiencies

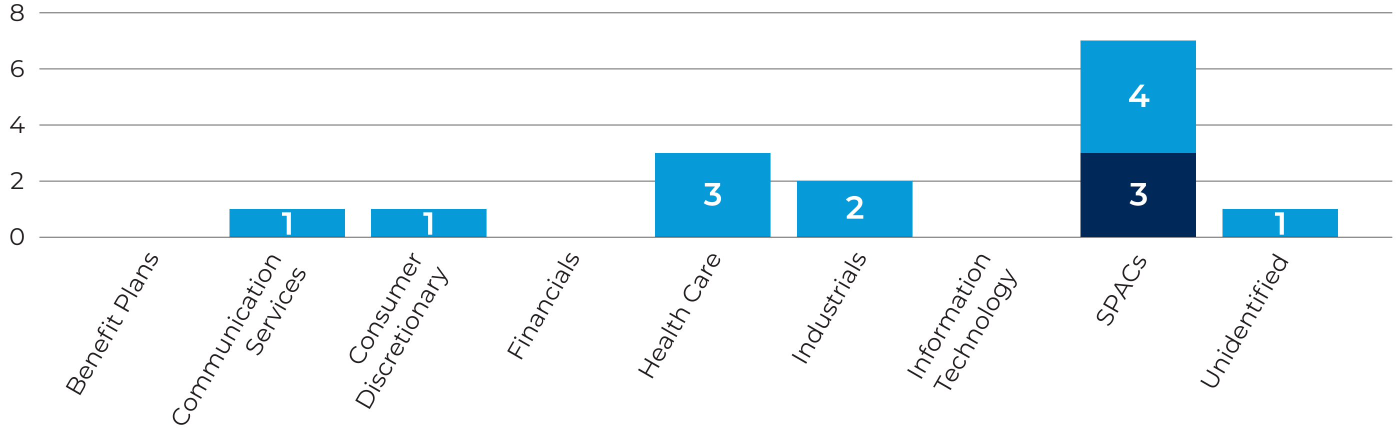
The following lists the auditing standards referenced in Part I.A of the 2022 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2022	2021	2019
AS 1105, *Audit Evidence*	7	9	0
AS 1201, *Supervision of the Audit Engagement*	5	6	0
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	2	0	0
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	7	4	0
AS 2315, *Audit Sampling*	1	0	0
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	3	0	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	11	7	-
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	2	0
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	-	1	0
AS 2810, *Evaluating Audit Results*	4	19	0

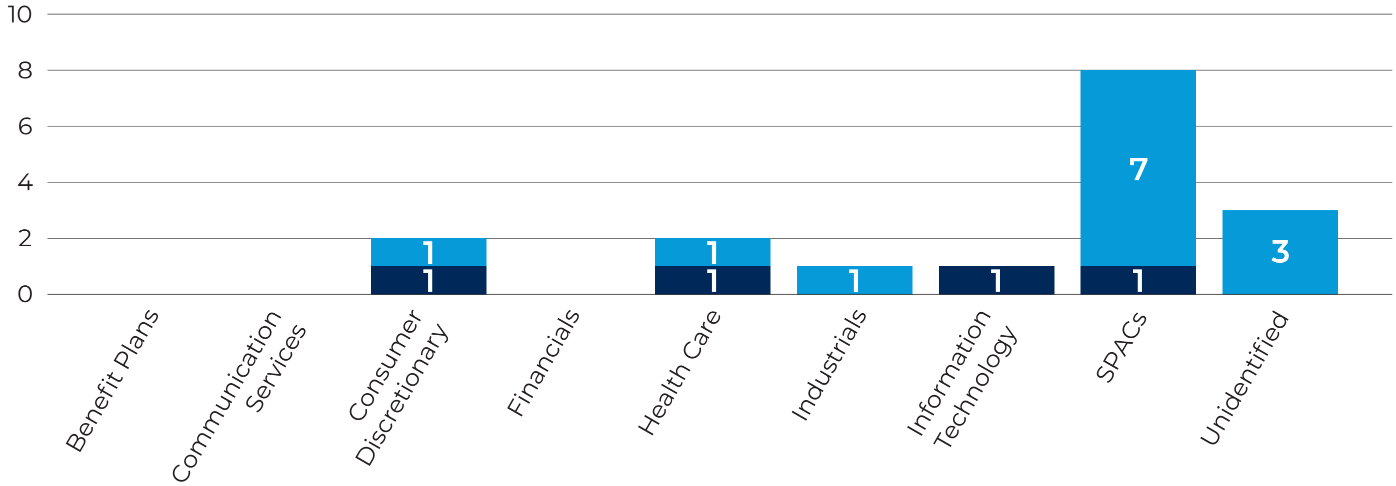
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

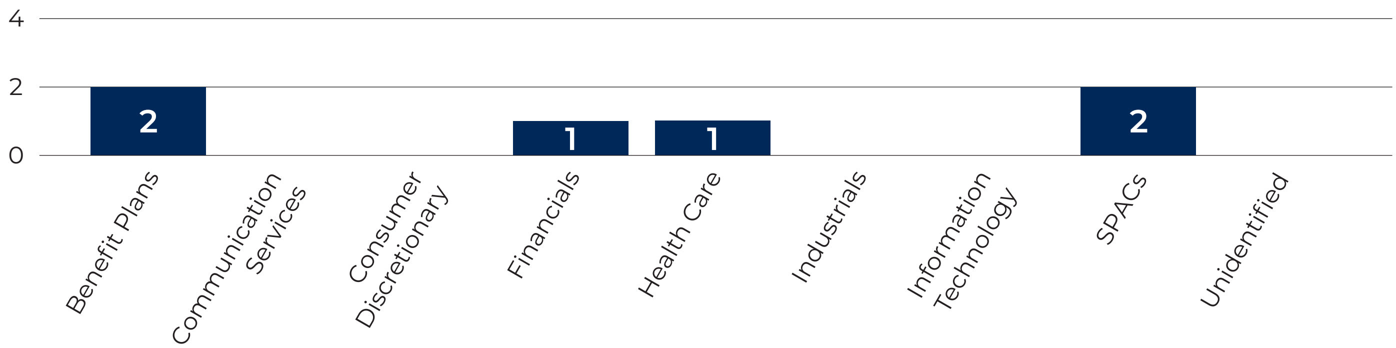
2022



2021



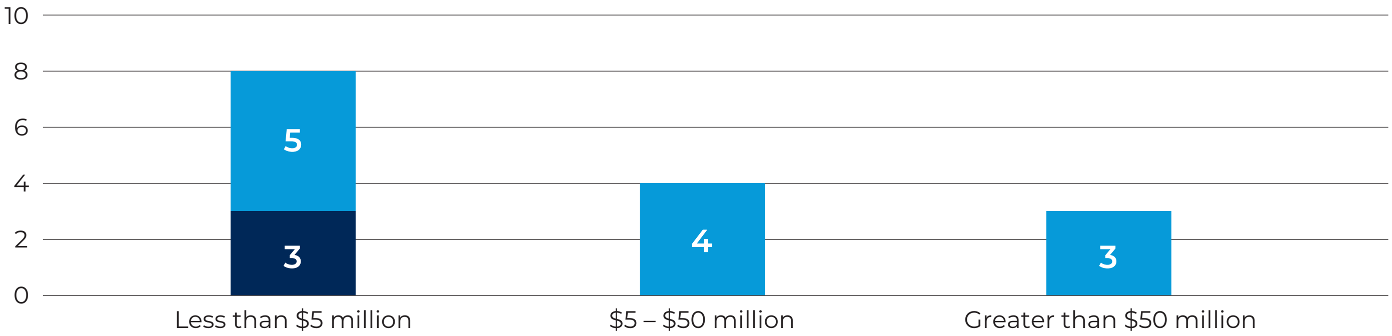
2019



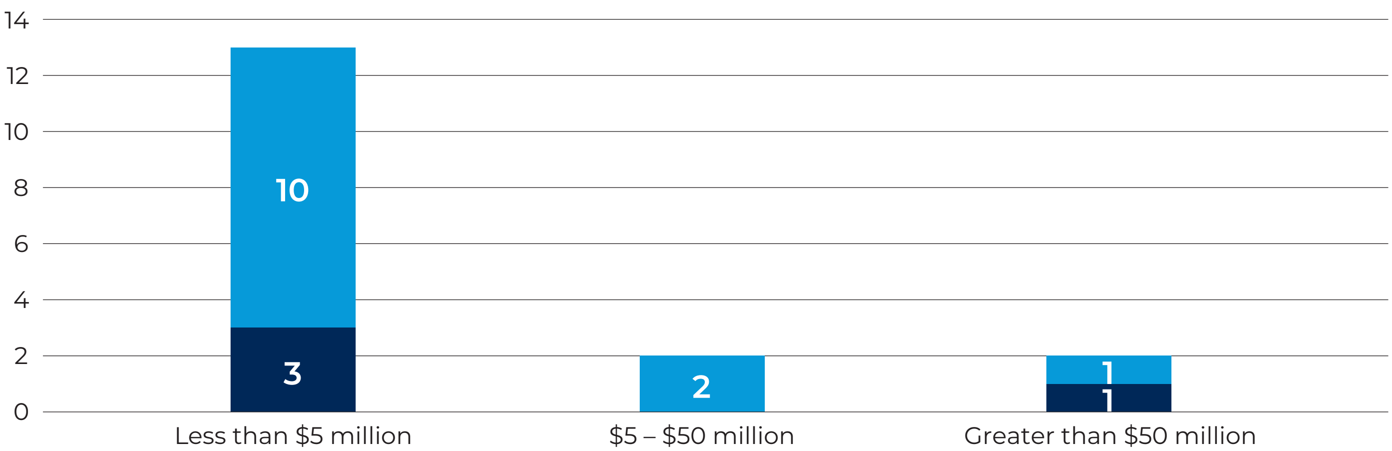
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

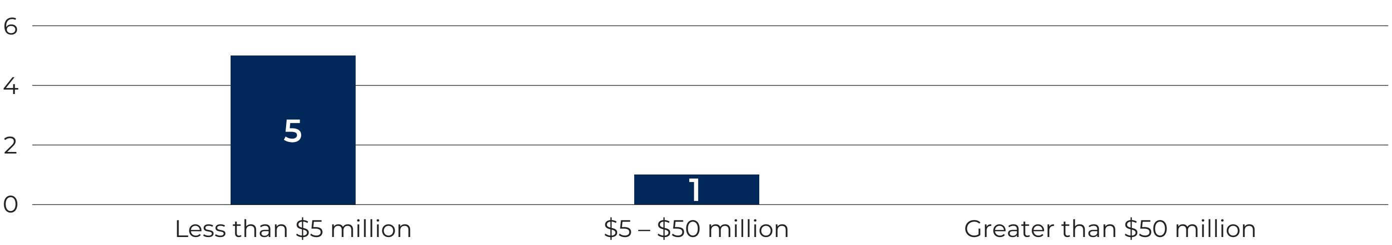
2022



2021



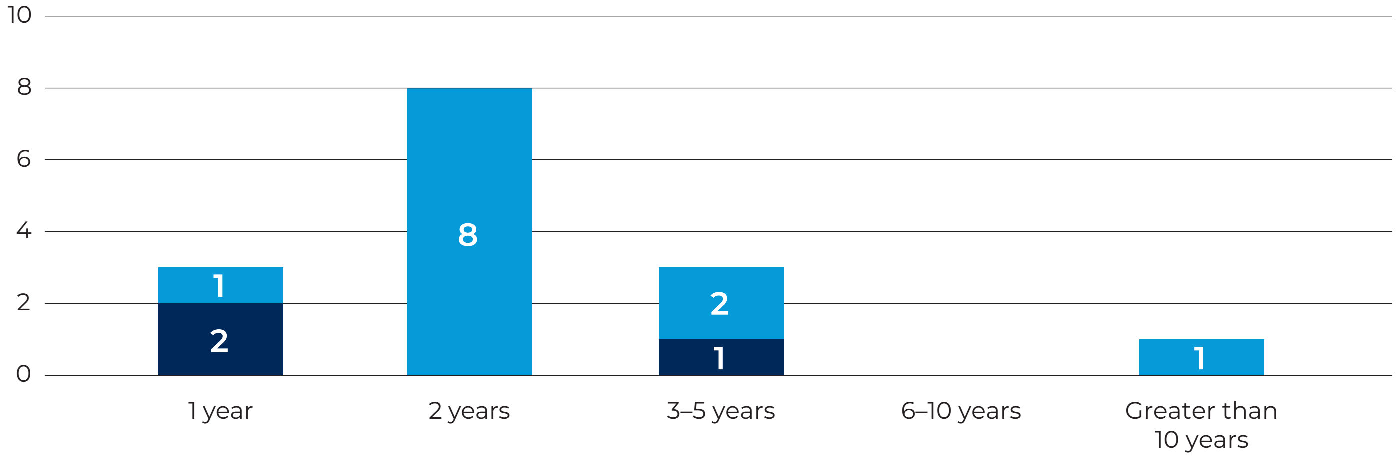
2019



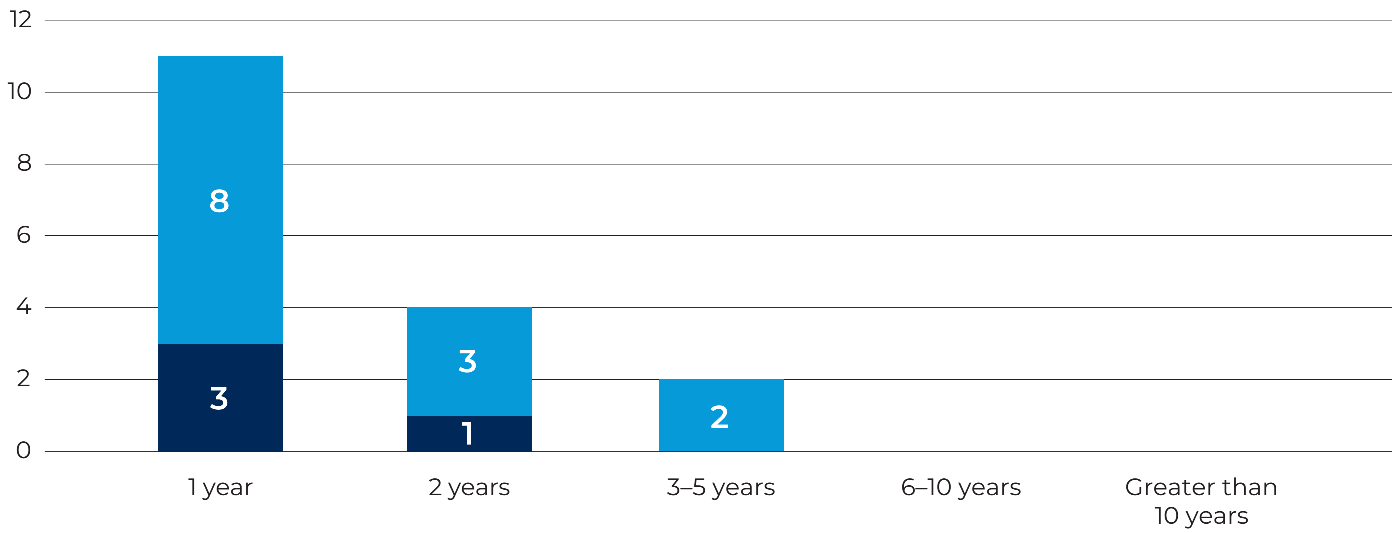
■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

Inspection Results by the Firm's Tenure on the Issuer

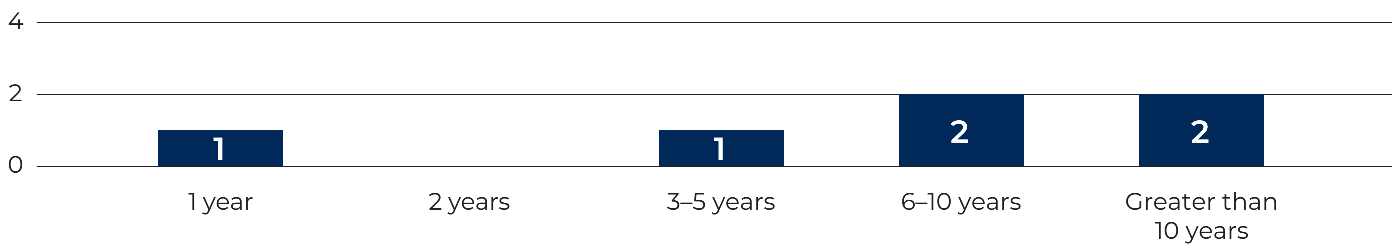
2022



2021



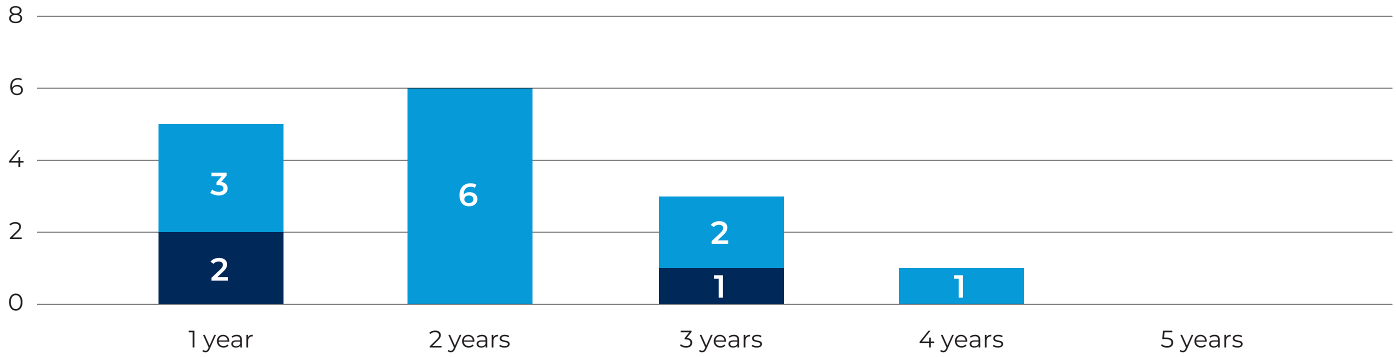
2019



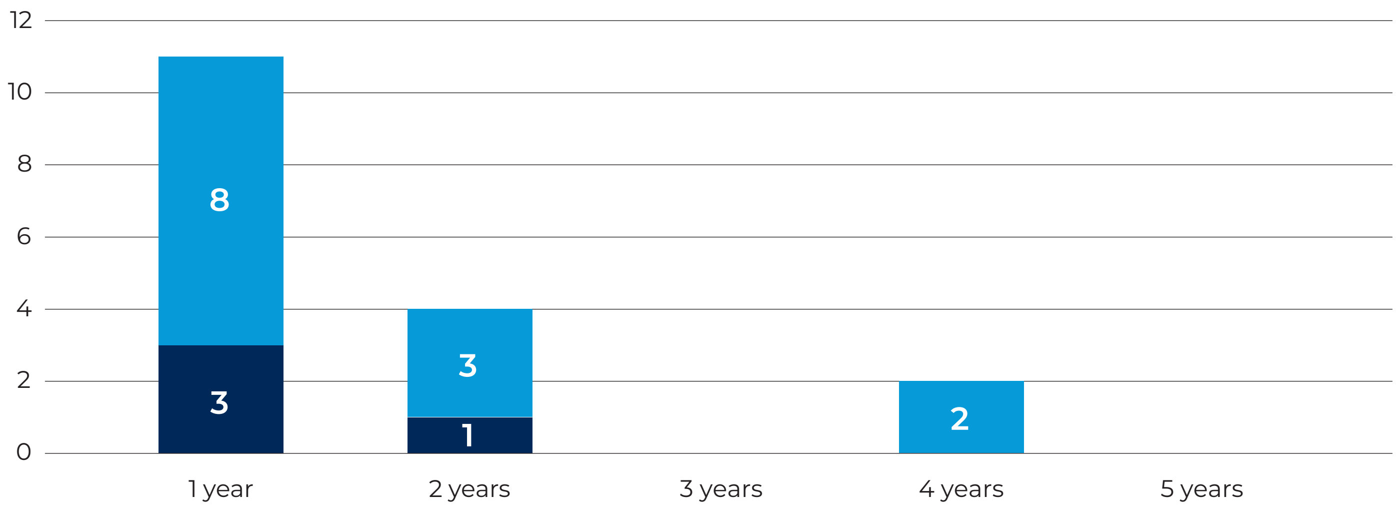
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by the Engagement Partner's Tenure on the Issuer

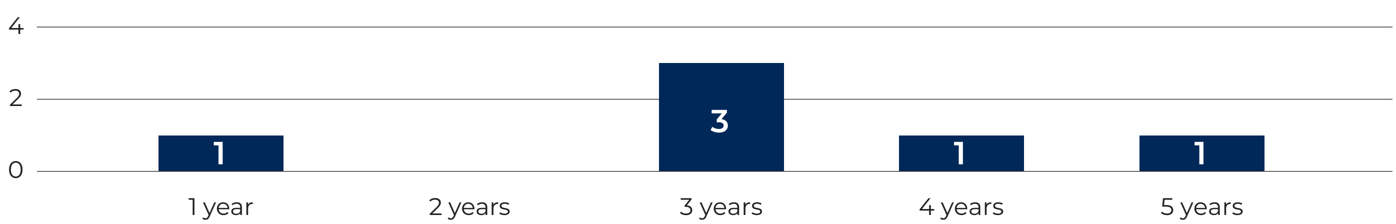
2022



2021



2019



■ Audits without Part I.A deficiencies ■ Audits with Part I.A deficiencies

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.

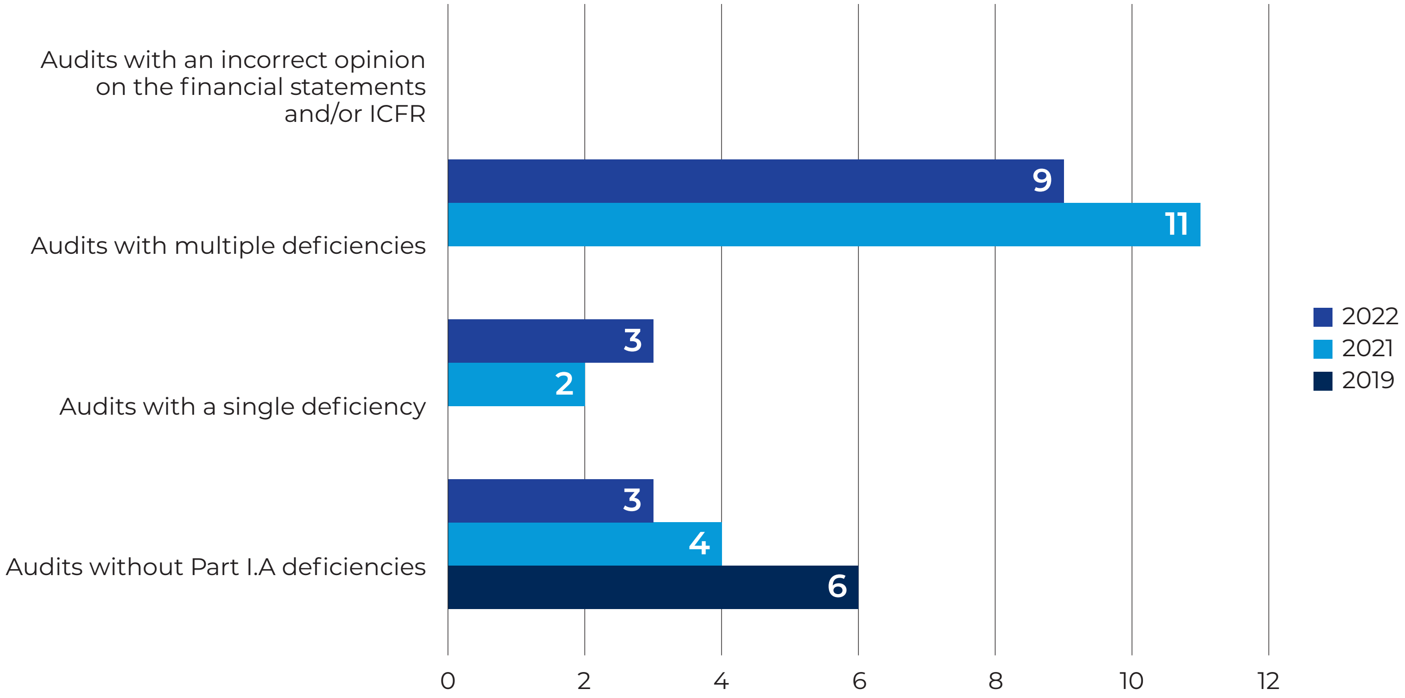
Audits with Multiple Deficiencies

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.

Number of Audits in Each Category



PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies 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 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 related to maintaining independence.

Consistent with the 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.

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(s) on the issuer's financial statements and/or ICFR.

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(s) that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Business Combinations**:

During the year, the issuer acquired multiple businesses and determined the fair values of certain acquired intangible assets using forecasted cash flows and related assumptions. The firm's approach for substantively testing the fair values of the acquired intangible assets was to test the issuer's process.

With respect to three of the acquired businesses, the following deficiencies were identified:

- The firm's procedures to evaluate the reasonableness of the forecasted revenue growth rates for the first two years of the forecast period consisted of comparing these rates to forecasted industry data and historical financial information of the acquired businesses. For two of the acquired businesses, the firm did not perform any procedures to evaluate the reliability of the historical financial information. (AS 1105.04 and .06) For one of the acquired businesses, the firm did not evaluate a significant difference between the industry data and the issuer's forecasted revenue growth rate for the second year of the forecast period. (AS 2501.16).
- For all three acquired businesses, the firm did not perform any procedures, beyond inquiring of management, to evaluate the reasonableness of the revenue growth rates for the remaining years of the forecasted period and another significant assumption. (AS 2501.16)
- For certain of the acquired businesses, the firm did not perform any substantive procedures to test certain other assets acquired and liabilities assumed. (AS 2301.08; AS 2501.07)

With respect to another acquired business, the following deficiencies were identified:

- The issuer initially recorded a liability for contingent consideration related to this acquired business but reclassified this contingent consideration from a liability to equity prior to year end. The firm did not sufficiently evaluate whether this reclassification was appropriate because its procedures were limited to inquiring of management and reading a memorandum prepared by the issuer. (AS 2301.08)
- The issuer assumed liabilities related to warrants as a result of this acquisition and recorded a gain related to the change in the fair values of these liabilities between the acquisition date and year end. The firm did not sufficiently test this gain because it did not perform any procedures to evaluate the reasonableness of the fair values of these liabilities recorded at the acquisition date. (AS 2501.07)
- The firm did not identify and evaluate a misstatement in the issuer's disclosure related to the valuation of the acquired net assets that was required under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

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

The issuer used information it obtained from an external party to record revenue for services provided to its customers. The firm obtained this information from the issuer and used it in its substantive procedures to test this revenue but did not perform any procedures to evaluate the reliability of the information, beyond validating that the issuer had not made any changes to the information after obtaining it from the external party. (AS 1105.04 and .06)

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

The firm identified fraud criteria for journal entries and obtained a list of all journal entries that met the criteria. The firm did not perform sufficient procedures to test those journal entries because it examined the underlying support for only certain journal entries, without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)

Issuer B – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Business Combinations**, for which the firm identified a significant risk:

During the year, the issuer acquired a business. The issuer assumed a liability related to warrants as a result of this acquisition and engaged a specialist to determine the fair values of these warrants. The firm did not perform any procedures to test the fair values of the warrants beyond reading the specialist's report. (AS 2501.07)

The firm did not identify and evaluate a misstatement in a required disclosure under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

During the year, the issuer acquired multiple other businesses. The issuer engaged specialists to determine the fair values of the acquired intangible assets using forecasted cash flows provided by the issuer and related assumptions developed by the specialists. The firm's approach for substantively testing the fair values of the acquired intangible assets was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and certain significant assumptions that the company's specialists used. The following deficiencies were identified:

- The firm did not perform any procedures, beyond inquiring of management, to evaluate the reasonableness of certain significant assumptions developed by the issuer for periods beyond the first year of the forecasted cash flows. (AS 2501.16)
- The firm did not identify that the auditor-employed specialist did not sufficiently evaluate the reasonableness of certain significant assumptions developed by the company's specialists because its procedures were limited to inquiring of management and reading an issuer-prepared memorandum and the valuation reports that were prepared by the company's specialists. (AS 1105.A8b; AS 1201.C6 and .C7)

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

The issuer recorded certain revenue based on data in an electronic environment that were tracked and provided by a service organization. The firm used certain information produced by this service organization in its substantive testing of this revenue but did not test, or test any controls over, the accuracy and completeness of this information. (AS 2301.08 and .13)

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

The firm identified fraud criteria for journal entries and obtained a list of all journal entries that met the criteria. The firm did not perform sufficient procedures to test those journal entries because it examined the underlying support for only certain journal entries, without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)

Issuer C – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Business Combinations**, **Revenue**, and **Expenses**. The firm's internal inspection program inspected this audit and reviewed certain of these areas but did not identify certain of the deficiencies below.

Description of the deficiencies identified

With respect to **Business Combinations**, for which the firm identified a significant risk:

During the year, the issuer acquired multiple businesses and engaged a specialist to determine the fair value of the acquired intangible assets for each acquisition. The firm's approach for substantively testing the fair value of the acquired intangible assets was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and significant assumptions that the company's specialist used, including the forecasted cash flows developed by the issuer. The firm did not identify that the auditor-employed specialist did not perform any procedures to evaluate the reasonableness of the forecasted cash flows. (AS 1201.C6 and .C7; AS 2501.16)

For two of the acquired businesses, the firm did not perform any procedures to test the remaining assets acquired and liabilities assumed. (AS 2301.08; AS 2501.07)

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

The firm did not perform any procedures to evaluate whether the issuer's contracts with its customers included any terms that could have had an effect on revenue recognition. (AS 2301.08 and .13)

With respect to **Expenses**:

The firm's sample for testing expenses related to share-based compensation was too small to provide sufficient appropriate audit evidence because, in determining the sample size, the firm did not take into account tolerable misstatement, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23, and .23A)

The firm did not perform any procedures to test certain other expenses beyond (1) comparing the current-year balance to the prior-year balance and (2) tracing certain balances in the general ledger to issuer-prepared reports. (AS 2301.08)

Issuer D

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Intangible Assets**, for which the firm identified a significant risk.

Description of the deficiencies identified

The firm selected for testing a control that included a review of the forecasted cash flows and related assumptions that the issuer used in its assessment of its intangible assets for impairment. The firm did not evaluate the specific review procedures that the control owner performed to assess the reasonableness of the cash flows and related assumptions. (AS 2201.42 and .44)

The firm's approach for substantively testing these intangible assets for possible impairment was to test the issuer's process. The firm did not perform any procedures to evaluate the reasonableness of the issuer's forecasted cash flows beyond reading an issuer-prepared memorandum. (AS 2501.16)

Issuer E – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory** and **Journal Entries**.

Description of the deficiencies identified

With respect to **Inventory**:

The firm selected for testing controls over the existence of certain inventory held by external parties that the issuer used to manufacture its products. The firm did not identify and test any controls over the accuracy and completeness of the reports that the issuer obtained from the external parties and used in the operation of these controls. (AS 2201.39)

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

The firm identified fraud criteria for journal entries and obtained a list of all journal entries that met the criteria. The firm did not perform sufficient procedures to test those journal entries because it examined the underlying support for only certain journal entries, without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)

Issuer F – SPACs

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer engaged a specialist to determine the fair value of its warrants. The firm's approach for substantively testing the fair value of these warrants was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and significant assumptions that the company's specialist used. The firm did not sufficiently test the fair value of these warrants because it did not identify that the auditor-employed specialist did not (1) sufficiently evaluate whether the methods that the company's specialist used were appropriate because it did not evaluate whether the data and significant assumptions used were appropriately applied, (2) evaluate whether certain significant assumptions developed by the company's specialist were consistent with other relevant information and whether external data that the company's specialist used to develop one of these significant assumptions were relevant and reliable, and (3) perform any procedures to evaluate the reasonableness of a significant assumption developed by the company and used by the company's specialist. (AS 1105.A8a, .A8b, and .A8c; AS 1201.C6 and .C7; AS 2501.16)

Issuer G – Communication Services

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 fraud risk.

Description of the deficiencies identified

The issuer recorded revenue based on data in an electronic environment that were tracked and provided by external parties. The firm used these data in its substantive testing of revenue but did not perform any procedures to evaluate the reliability of these data. (AS 1105.04 and 06)

For certain revenue, the issuer used third-party platforms to provide services to its customers. The firm did not perform any procedures to evaluate whether the issuer met certain revenue recognition criteria to satisfy the performance obligation for these services before revenue was recognized. (AS 2301.08 and .13)

Issuer H – SPACs

Type of audit and related area affected

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

Description of the deficiencies identified

The issuer engaged a specialist to determine the fair value of its warrants. The firm's approach for substantively testing the fair value of these warrants was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and significant assumptions the company's specialist used. The firm did not sufficiently test the fair value of these warrants because it did not identify that the auditor-employed specialist did not (1) sufficiently evaluate whether certain methods that the company's specialist used were appropriate because it did not evaluate whether the data and significant assumptions used were appropriately applied and (2) perform any procedures to evaluate the reasonableness of certain significant assumptions that the company's specialist developed. (AS 1105.A8b and .A8c; AS 1201.C6 and .C7)

Issuer I – SPACs

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Warrants**, for which the firm identified a significant risk. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

The issuer engaged a specialist to determine the fair value of its warrants. The firm's approach for substantively testing the fair value of these warrants was to test the issuer's process, and the firm used an auditor-employed specialist to evaluate the methods and certain significant assumptions the company's specialist used. The firm did not sufficiently evaluate the reasonableness of a significant assumption developed by the company's specialist because it did not identify that the auditor-employed specialist did not evaluate whether this assumption was consistent with relevant information and whether external data that the company's specialist used to develop this assumption were relevant and reliable. (AS 1105.A8a and .A8b; AS 1201.C6 and .C7)

Audits with a Single Deficiency

Issuer J – Health Care

Type of audit and related area affected

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

Description of the deficiency identified

During the year, the issuer acquired a business. The firm did not identify and evaluate the issuer's omission of certain disclosures required under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

Issuer K – SPACs

Type of audit and related area affected

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

Description of the deficiency identified

The firm did not identify and evaluate a misstatement in a disclosure required under FASB ASC Topic 820, *Fair Value Measurement*. (AS 2810.30 and .31)

Issuer L – Industrials

Type of audit and related area affected

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

Description of the deficiency identified

During the year, the issuer acquired a business. The issuer assumed a liability related to certain warrants as a result of this acquisition and recorded a gain related to the change in the fair value of this liability between the acquisition date and year end. The firm did not sufficiently test this gain because it did not perform any procedures to evaluate the reasonableness of the fair value of the liability recorded at the acquisition date, beyond reading the valuation report that was prepared by the company's specialist. (AS 2501.07)

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 two of five 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 these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.
- In one of five audits reviewed, the firm's audit report made reference to another auditor but did not indicate the division of responsibility as between the portion of the financial statements covered by the firm's audit and the portion covered by the audit of the other auditor. In this instance, the firm was non-compliant with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.
- In five of five audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the names, locations, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In three of 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 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 five audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by other accounting firms. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In seven of 11 audits reviewed, the firm's independence communications with the audit committee inaccurately described the professional standards related to required communications. In these instances, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

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. We identified one instance for one issuer in 15 audits reviewed in which this circumstance appears to have occurred related to permissible tax 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 non-U.S. associated firms in the global network; 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.

withum
ADVISORY TAX AUDIT

December 14, 2023

Ms. Christine Gunia, Acting Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington DC 20006

Email: ResponsestoDraftReport@pcaobus.org

Re: Response to Part I of the Draft Report on the 2022 Inspection of WithumSmith+Brown, PC

Dear Ms. Gunia:

On behalf of WithumSmith+Brown, PC ("Withum" or the "Firm"), we appreciate the opportunity to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report regarding the 2022 inspection of the Firm.

Withum has the utmost respect for the PCAOB's inspection process and believes that the PCAOB inspection process serves a critical role in further enhancing audit quality for the benefit of investors and the public interest. We take very seriously the matters identified by the PCAOB in connection with our 2022 inspection, and the matters identified in Part 1 of the Report have been carefully evaluated and have been properly addressed and resolved in accordance with Firm internal policies and relevant PCAOB standards in a thoughtful, thorough and appropriate manner. Additionally, we have conducted root cause analyses, and as a result, have enhanced certain aspects of our audit approach and quality control policies. Withum continues to stress the importance of improving audit quality.

Withum remains committed to the PCAOB's mission of constant improvement to audit quality to better protect the public interest. We look forward to continuing to engage with the PCAOB in pursuit of this common mission.

Respectfully submitted,

John Mortenson, Head of Accounting and Auditing Services
WithumSmith+Brown, PC

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