2023 Inspection

B F Borgers CPA PC

(Headquartered in Lakewood, Colorado)

June 20, 2024

PCAOB RELEASE NO. 104-2024-108

PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

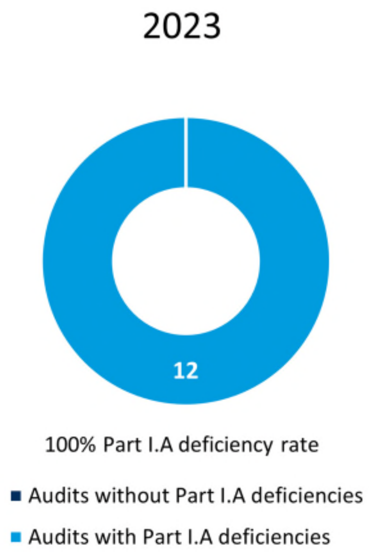
Our 2023 inspection report on B F Borgers CPA PC provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of what is included in this report:

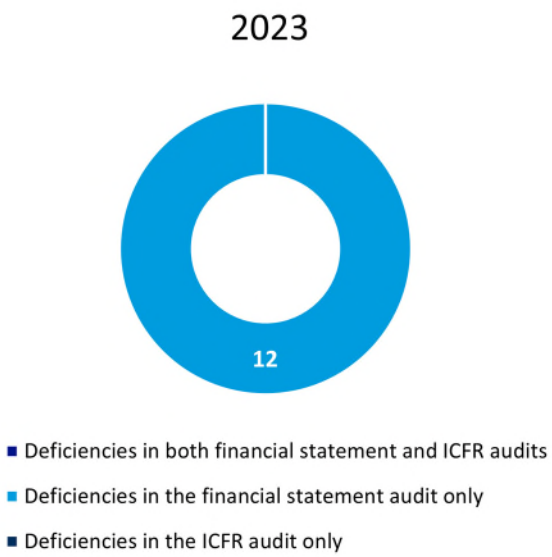
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial 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 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 2023 Deficiencies Included in Part I

All of the 12 audits we reviewed in 2023 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 revenue and related accounts, business combinations and goodwill and intangible assets.





The most common Part I.A deficiencies in 2023 related to performing substantive testing to address a risk of material misstatement, testing journal entries, and evaluating the appropriateness of the issuer's accounting method or disclosure.

The Part I.B deficiencies in 2023 related to audit documentation, engagement quality reviews, audit committee communications, risk assessment, management communications, the firm's audit report, auditor tenure, critical audit matters, and Form AP.

The Part I.C deficiencies in 2023 related to audit committee pre-approval.

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2023 INSPECTION

In the 2023 inspection of B F Borgers CPA 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 12 audits of issuers with fiscal years generally ending in 2022. 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 2023 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.

2023 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 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

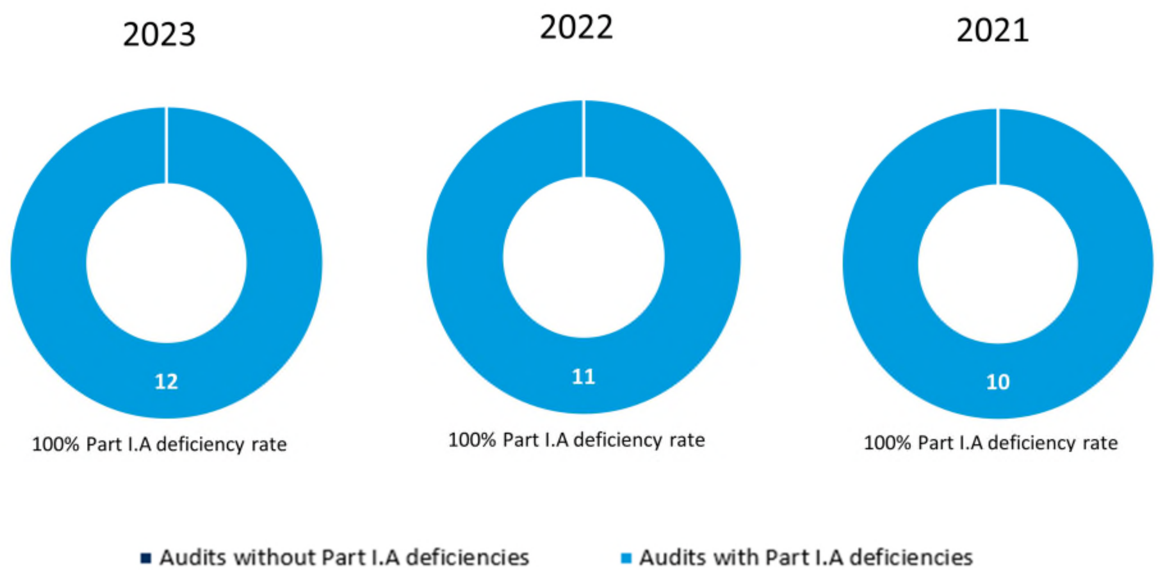
The following information provides an overview of our 2023 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, 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

	2023	2022	2021
Total audits reviewed			
Total audits reviewed	12	11	10
Selection method			
Risk-based selections	10	9	10
Random selections	2	2	0
Total audits reviewed	**12**	**11**	**10**
Principal auditor			
Audits in which the firm was the principal auditor	12	11	10
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**12**	**11**	**10**
Audit type			
Integrated audits of financial statements and ICFR	0	0	0
Financial statement audits only	12	11	10
Total audits reviewed	**12**	**11**	**10**

Part I.A Deficiencies in Audits Reviewed

In 2023, 10 of the 12 audits appearing in Part I.A were selected for review using risk-based criteria. In 2022, 9 of the 11 audits appearing in Part I.A were selected for review using risk-based criteria. In 2021, all audits appearing in Part I.A were selected for review using risk-based criteria.

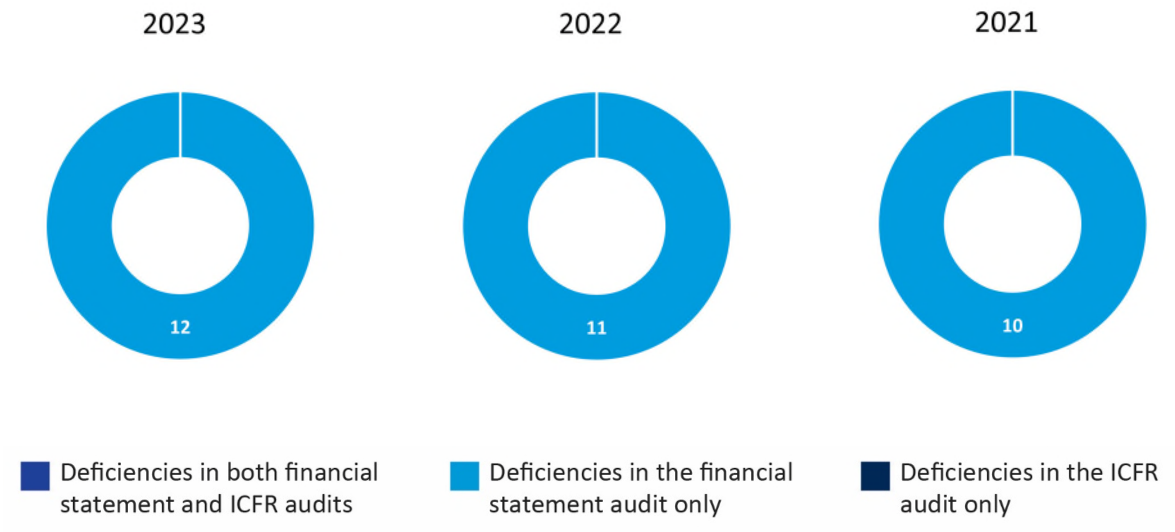


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional 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 2022 inspection procedures involved two audits for which the issuers, unrelated to our review, restated their financial statements to correct misstatements.

The following tables and graphs summarize inspection-related information, by inspection year, for 2023 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		
	2023	2022	2021
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	12	11	10
Did not perform sufficient testing of journal entries	12	3	2
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	10	5	2

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.

2023			2022			2021		
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
Revenue and related accounts	11	11	**Revenue and related accounts**	6	5	**Revenue and related accounts**	9	6
Business combinations	6	6	**Journal entries**	6	3	**Cash and cash equivalents**	5	0
Goodwill and intangible assets	3	3	**Business combinations**	3	3	**Goodwill and intangible assets**	3	3
Related party transactions	2	2	**Debt**	3	3	**Financial reporting**	2	2
Inventory	1	1	**Related party transactions**	2	2	**Inventory**	2	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	2023		2022		2021	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	11	11	5	6	6	9
Business combinations	6	6	3	3	2	2
Debt	0	0	3	3	0	0
Goodwill and intangible assets	3	3	0	0	3	3

Revenue and related accounts: The deficiencies in 2023, 2022, and 2021 related to substantive testing of revenue, accounts receivable, and deferred revenue.

Business combinations: The deficiencies in 2023 primarily related to not performing testing of the purchase consideration and the fair value, existence, and completeness of assets acquired and liabilities assumed, and evaluation of disclosures. The deficiencies in 2022 and 2021 primarily related to substantive testing of the fair value, existence, and completeness of assets acquired and liabilities assumed.

Debt: The deficiencies in 2022 related to substantive testing of debt and evaluating the appropriateness of the issuer's accounting for debt and related disclosures.

Goodwill and intangible assets: The deficiencies in 2023 primarily related to evaluating goodwill and intangible assets for possible impairment and substantive testing of goodwill and intangible assets. The deficiencies in 2021 primarily related to evaluating goodwill and intangible assets for possible impairment.

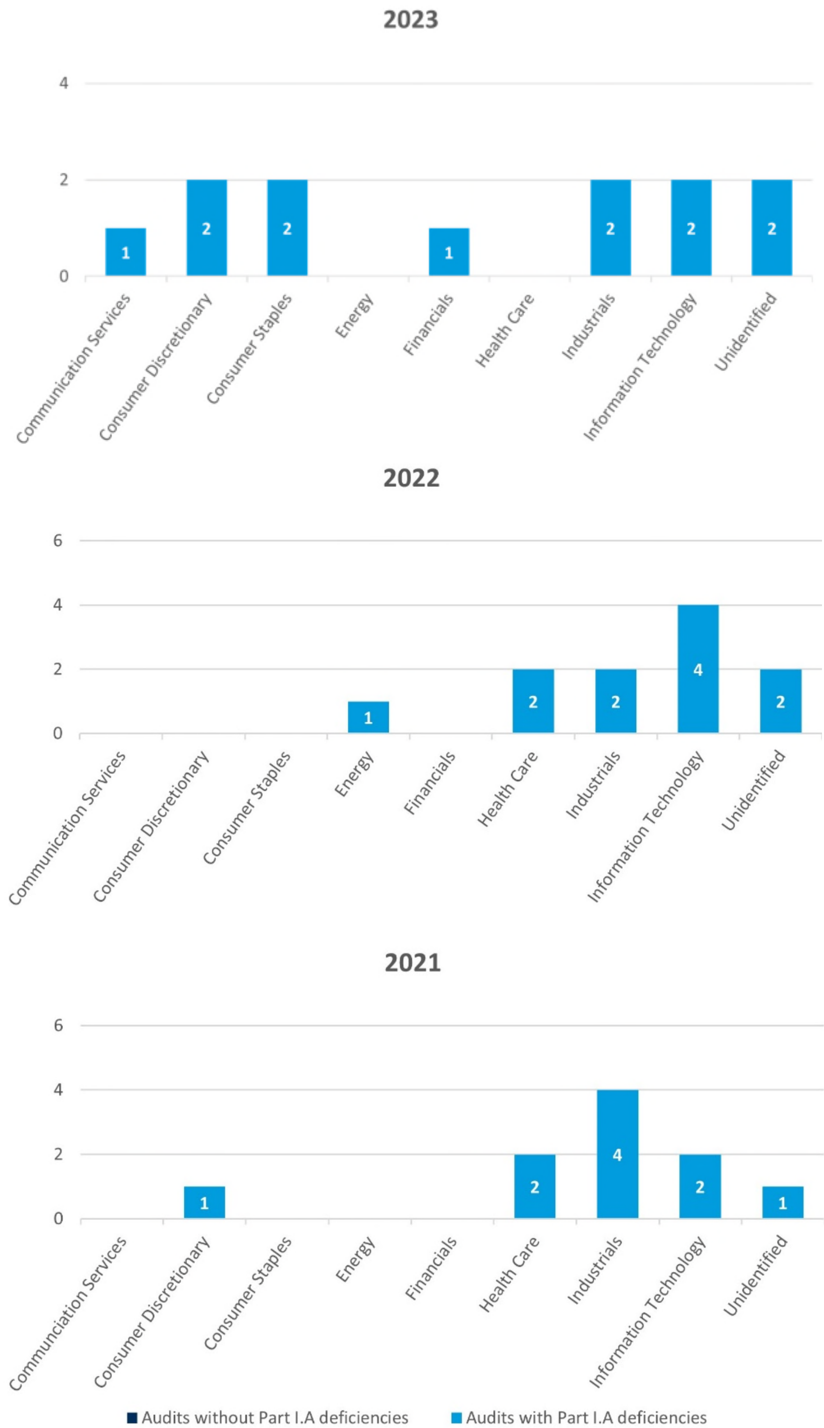
Auditing Standards Associated with Identified Part I.A Deficiencies

The following lists the auditing standards referenced in Part I.A of the 2023 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

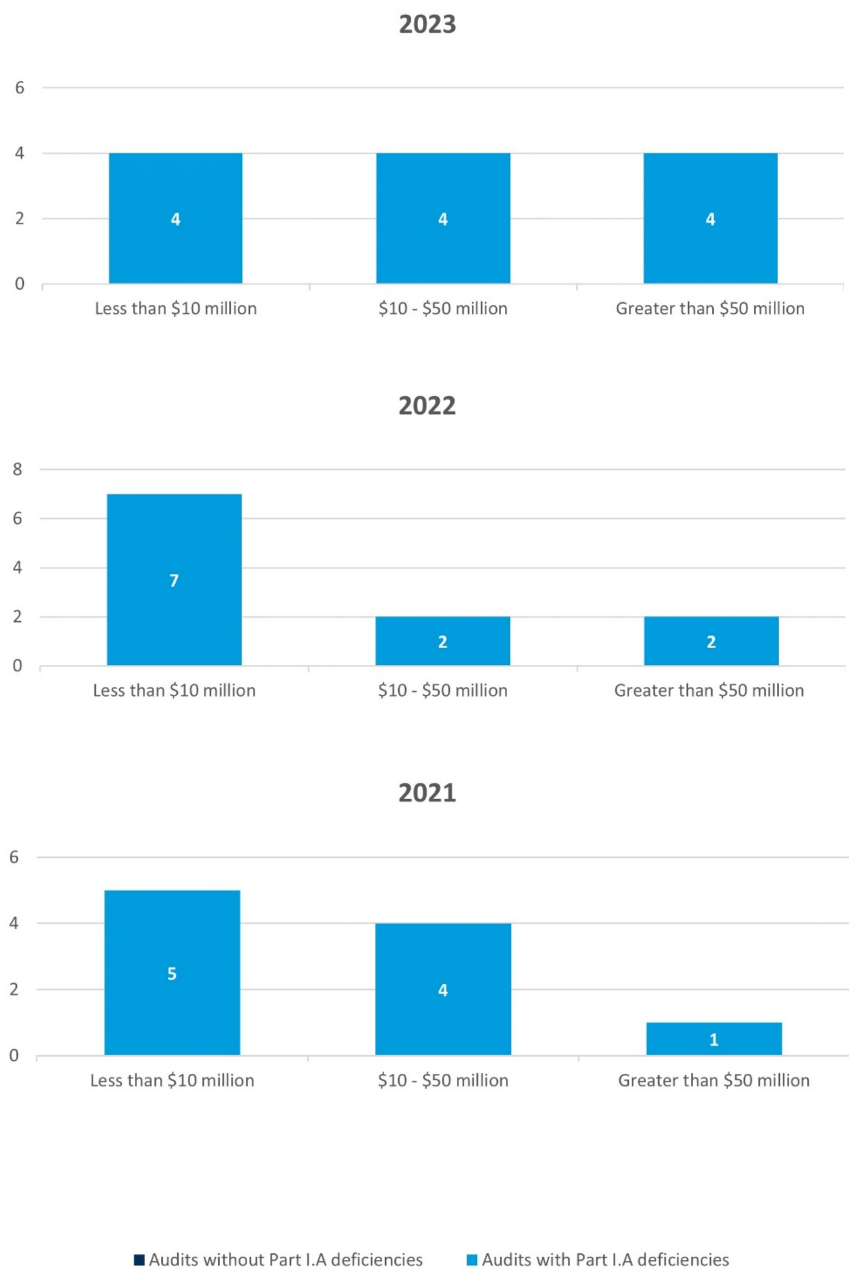
PCAOB Auditing Standards	2023	2022	2021
AS 1105, *Audit Evidence*	14	10	9
AS 1201, *Supervision of the Audit Engagement*	6	1	0
AS 1215, *Audit Documentation*	0	0	1
AS 2105, *Consideration of Materiality in Planning and Performing an Audit*	0	1	0
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	32	32	26
AS 2310, *The Confirmation Process*	4	0	1
AS 2315, *Audit Sampling*	3	1	1
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	12	3	1
AS 2405, *Illegal Acts by Clients*	0	1	0
AS 2410, *Related Parties*	5	2	2
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	20	9	13
AS 2510, *Auditing Inventories*	1	0	0
AS 2810, *Evaluating Audit Results*	13	8	6

Inspection Results by Issuer Industry Sector

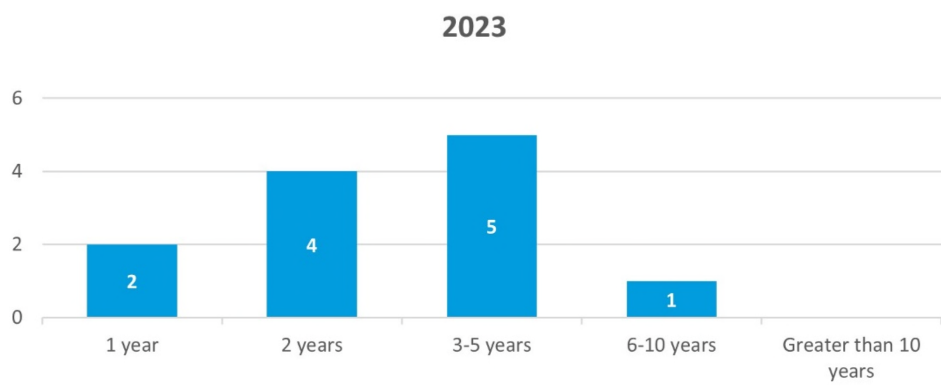
The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where no industry data for an issuer is available or where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as "unidentified."

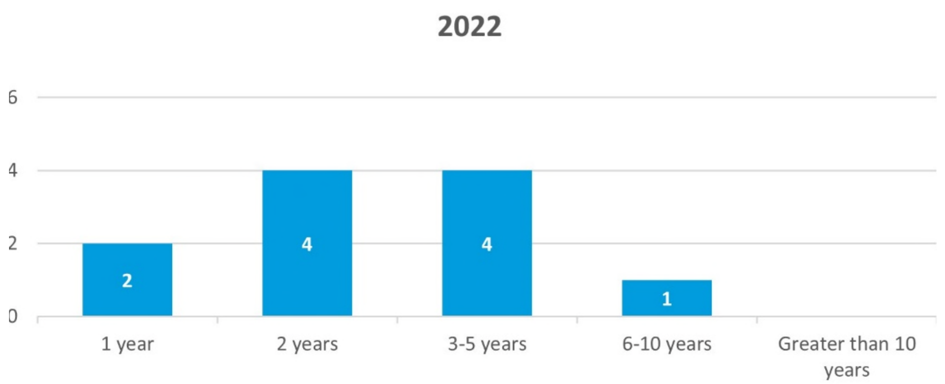


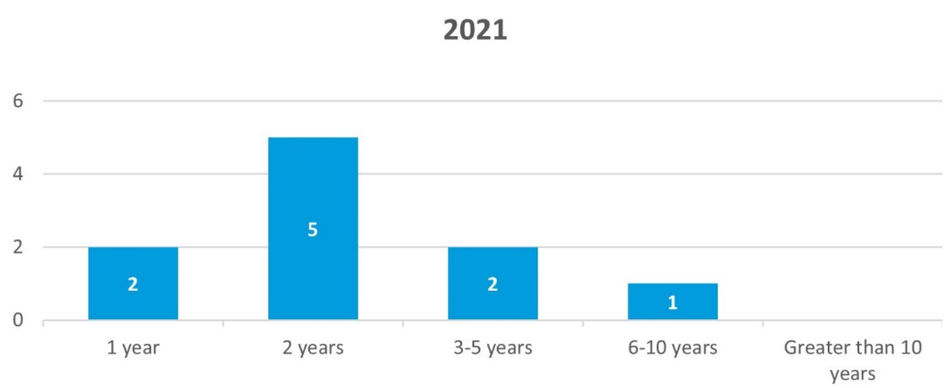
Inspection Results by Issuer Revenue Range



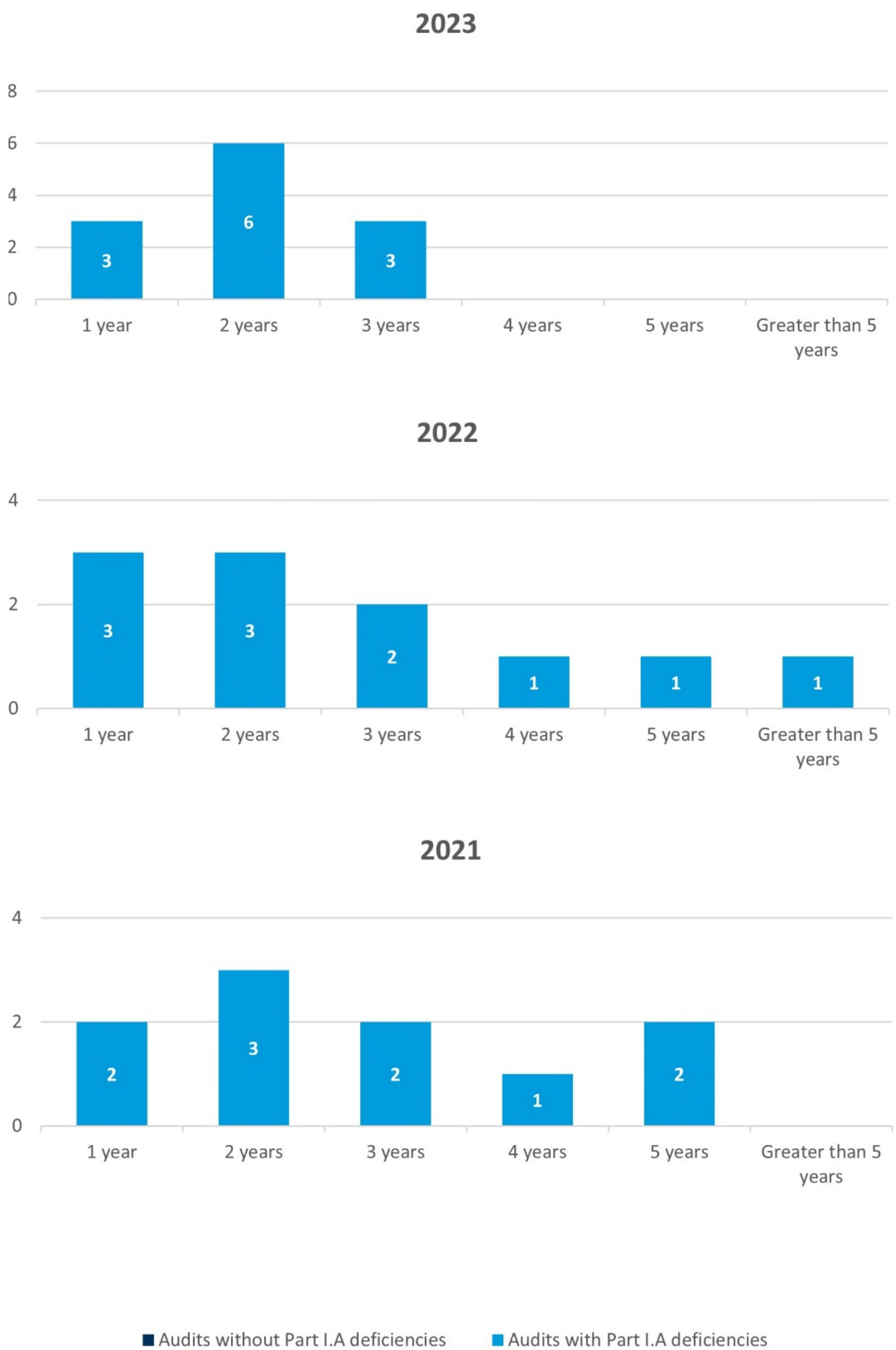
Inspection Results by the Firm's Tenure on the Issuer







Inspection Results by the Engagement Partner's Tenure on the Issuer[1]



[1] For further information on the instance of potential non-compliance with SEC Rules related to an audit partner serving for more than the maximum period permitted in 2022 refer to Part I.C in the 2022 inspection 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.

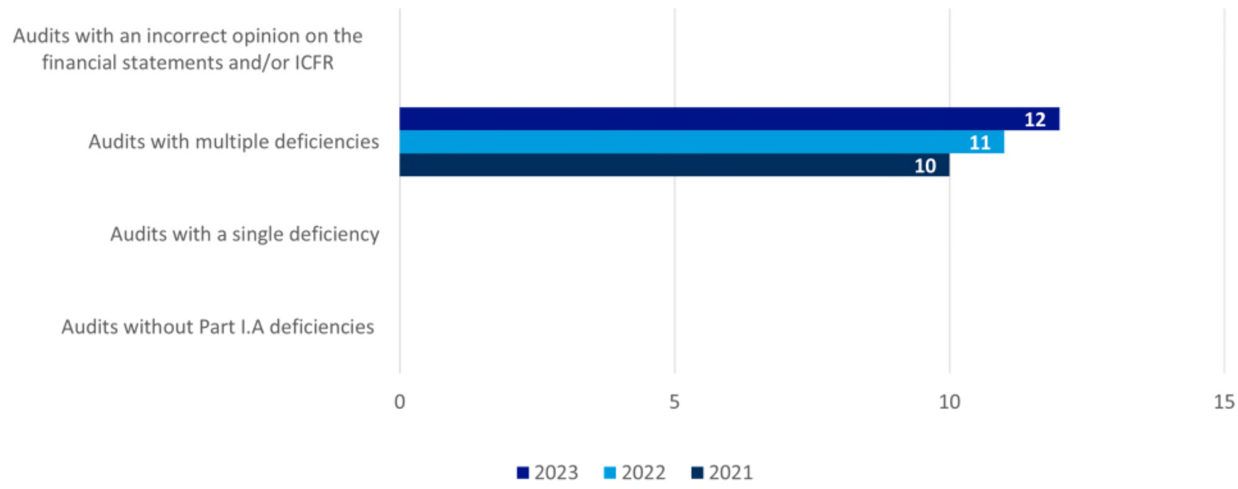
Audits with Multiple Deficiencies

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.

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). 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 – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue**:

The firm did not perform any procedures to test revenue. (AS 2301.08)

With respect to **Goodwill and Intangible Assets**:

The firm did not perform procedures to test goodwill and intangible assets, beyond obtaining certain issuer-prepared schedules. (AS 2301.08) In addition, the firm did not identify and evaluate the issuer's omission of disclosures for goodwill and intangible assets required by FASB ASC Topic 350, *Intangibles – Goodwill and Other*, and FASB ASC Topic 820, *Fair Value Measurement*. (AS 2810.30 and .31)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer B – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to a **Business Combination**:

During the year, the issuer acquired a business. The following deficiencies were identified:

- The firm did not perform procedures, beyond obtaining and reading the issuer's purchase price allocation schedule, to test the fair value of the acquired intangible assets. (AS 2501.07)

- The firm did not perform any procedures to test the existence, completeness, and valuation of the tangible assets acquired and the liabilities assumed at the acquisition date. (AS 2301.08; AS 2501.07)

- The firm did not perform any procedures to test the purchase price. (AS 2301.08)

- The firm did not identify and evaluate the issuer's omission of disclosures related to this business combination required by FASB ASC Topic 350, FASB ASC Topic 805, *Business Combinations*, and FASB ASC Topic 820. (AS 2810.30 and .31)

With respect to **Revenue**:

The firm did not perform any procedures to evaluate whether the issuer met the revenue recognition criteria prior to recognizing revenue. (AS 2301.08)

With respect to **Inventory**:

The firm performed procedures to observe inventory on dates other than year end. The firm did not apply appropriate tests of intervening transactions in inventory between the count dates and year end. (AS 2510.12) In addition, the firm did not perform any procedures to test costs in inventory, including whether inventory was recorded at the lower of cost or net realizable value. (AS 2301.08)

The issuer determined a reserve for inventory was not necessary. The firm did not perform any procedures to test the issuer's determination. (AS 2501.07)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer C – Communication Services

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue and Related Accounts**:

The firm did not perform any procedures to evaluate whether the issuer met the revenue recognition criteria prior to recognizing revenue. (AS 2301.08) In addition, the firm did not perform procedures to test a related liability account, beyond obtaining a schedule of activity for the account for the year. (AS 2301.08)

The firm did not identify and evaluate the issuer's omission of disclosures related to revenue required by FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31) In addition, the firm did not perform procedures to evaluate whether the issuer should have disclosed disaggregated revenue in accordance with FASB ASC Topic 606. (AS 2301.08)

To test accounts receivable, the firm sent a sample of positive confirmation requests by electronic mail and received responses by electronic mail, certain of which were returned with exceptions. The following deficiencies were identified:

- The sample size the firm used to test accounts receivable was too small to provide sufficient appropriate audit evidence because the firm did not take into account tolerable misstatement for the population. (AS 2315.16, .23, and .23A)
- The firm did not consider performing procedures to address the risks associated with the electronic responses, such as verifying the source and contents of the confirmation responses. (AS 2310.29)
- For the confirmations returned with exceptions, the firm did not perform any procedures to evaluate the nature of those exceptions. (AS 2310.33)

The firm did not perform procedures to test the allowance for doubtful accounts, beyond obtaining the activity in the account for the year. (AS 2501.07)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses. The following deficiencies were identified:

- The firm did not perform procedures to test the fair value of the intangible assets, beyond obtaining and reading the purchase price allocation for one of the acquisitions. (AS 2501.07)
- The firm did not perform any procedures to test the existence, completeness, and fair value of the tangible assets acquired at the acquisition dates for these acquisitions. (AS 2301.08; AS 2501.07)
- The firm did not perform any procedures to test the purchase consideration for these acquisitions, including contingent consideration. (AS 2301.08; AS 2501.07)
- The firm did not identify and evaluate the issuer's omission of disclosures related to these business combinations required by FASB ASC Topic 805 and FASB ASC Topic 820. (AS 2810.30 and .31)

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

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer D – Consumer Discretionary

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue**:

The firm did not perform procedures to test revenues, beyond obtaining certain issuer-produced reports and reports from external sources. (AS 2301.08)

The firm did not identify and evaluate the issuer's inaccurate disclosure of its revenue recognition policy. (AS 2810.30 and .31) In addition, the firm did not identify and evaluate the issuer's omission of disclosures related to disaggregated revenue and significant payment terms required by FASB ASC Topic 606. (AS 2810.30 and .31)

With respect to **Goodwill**:

The firm did not perform any procedures to test goodwill. (AS 2301.08)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer E – Consumer Discretionary

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, **Revenue, Certain Assets and Related Liabilities**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue**:

The firm did not perform procedures to test revenue, beyond obtaining certain external reports and issuer-produced reports. (AS 2301.08)

With respect to **Certain Assets and Related Liabilities**:

The firm did not perform procedures to test certain assets and related liabilities, beyond obtaining an issuer-prepared report. (AS 2301.08)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer F

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Audit Evidence**, **Revenue**, a **Business Combination**, **Goodwill**, **Intangible Assets**, and **Journal Entries**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Audit Evidence**:

The firm did not complete all necessary procedures and obtain sufficient evidence to support the representations in the auditor's report. Specifically, the firm did not review the work of engagement team members to evaluate whether the (1) work was performed and documented, (2) objectives of the procedures were achieved, and (3) results of the procedures performed supported the conclusions reached. (AS 1105.04; AS 1201.05)

With respect to **Revenue**:

The firm did not perform procedures, beyond vouching a sample of journal entries to bank statements, to evaluate whether the issuer had satisfied its performance obligations before revenue was recognized. Further, the firm did not perform any procedures to test the completeness of the sub-ledger it used to make its selection of journal entries. (AS 1105.10; AS 2301.08)

With respect to a **Business Combination**:

During the year, the issuer acquired a business and engaged a specialist to estimate the fair value of the acquired intangible assets. The firm did not perform procedures to test the fair value of the acquired intangible assets, beyond obtaining and reading the company's specialist's draft valuation report and an issuer-prepared purchase price allocation schedule. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; 2501.07)

In addition, the firm did not identify and evaluate the issuer's omission of disclosures related to this business combination required by FASB ASC Topic 820. (AS 2810.30 and .31)

With respect to **Goodwill**:

The issuer engaged an external valuation firm to perform a quantitative assessment of the possible impairment of goodwill. The firm did not perform procedures to test this assessment, beyond obtaining and reading the valuation report prepared by the company's specialist. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

With respect to **Intangible Assets**:

The issuer reported an impairment loss for an intangible asset. The firm did not perform any procedures to test this impairment loss. (AS 2501.07) In addition, the firm did not perform any procedures to test the amortization expense for the issuer's intangible assets. (AS 2501.07)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer G – Consumer Staples

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue and Deferred Revenue**, **Related Party Transactions**, and **Journal Entries**.

Description of the deficiencies identified

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

The firm did not perform any procedures to test whether the issuer satisfied its performance obligations prior to the recognition of revenue. (AS 2301.08 and .13) In addition, the firm did not perform any procedures to test, or identify and test controls over, the accuracy and completeness of issuer-produced reports it used in its substantive procedures to test certain revenue. (AS 1105.10)

The firm did not perform procedures, beyond inquiry and obtaining the subledger details, to test deferred revenue. (AS 2301.08)

The firm did not identify and evaluate the issuer's omission of disclosures related to revenue required by FASB ASC Topic 606. (AS 2810.30 and .31)

With respect to **Related Party Transactions**:

The firm sent positive confirmation requests to related parties. The following deficiencies were identified:

- The firm did not perform sufficient procedures to test related party transactions and balances because it limited its procedures to confirmation requests of the related party balances. (AS 2410.12)
- The firm did not identify certain conditions indicating that certain confirmation responses might not be authentic or might not have come from the purported source. As a result, the firm did not perform additional audit procedures to respond to those conditions and evaluate their effect, if any, on the other aspects of the audit. (AS 1105.09)
- The firm received electronic responses to certain of its confirmation requests. The firm did not consider performing procedures to address the risks associated with the electronic responses, such as verifying the source and contents of the confirmation responses. (AS 2310.29)
- The firm received a response from a related party in which the related party indicated that it both agreed and disagreed with the balances. The firm did not sufficiently evaluate the evidence provided by this confirmation because it did not consider the reliability of the confirmation, the nature of the exceptions, and whether additional evidence was needed. (AS 2310.33; AS 2810.03)
- The firm did not perform any procedures to test the allowance for doubtful accounts from related parties. (AS 2501.07)

In addition, the firm did not perform any procedures to test the disclosures related to the related party transactions. (AS 2410.17)

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

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer H – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Stock-Based Compensation**, **Investments**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue**:

The firm did not perform procedures to test revenue, beyond obtaining sales reports from external parties and a contract review analysis prepared by the issuer. (AS 2301.08)

With respect to **Stock-Based Compensation**:

The firm did not perform procedures to test stock-based compensation, beyond obtaining certain issuer-prepared reports. (AS 2301.08)

With respect to **Investments**:

The firm did not perform any procedures to test certain investments. (AS 2301.08)

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

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer I – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Related Party Transactions**, **Expenses**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Related Party Transactions**:

The issuer reported transactions with related parties in its financial statements. The following deficiencies were identified:

- The firm did not perform procedures to test payables due to related parties, beyond confirming the balance with a related party who was an executive officer of the issuer. (AS 2410.12)
- The firm did not perform procedures to evaluate whether the issuer's presentation of related party transactions in the statement of cash flows was in conformity with FASB ASC Topic 230, *Statement of Cash Flows*. (AS 2410.17)
- The firm did not identify and evaluate the issuer's omission of disclosures related to the terms and manner of settlement of related party transactions required by FASB ASC Topic 850, *Related Party Disclosures*. (AS 2410.17; AS 2810.30 and .31)

With respect to **Expenses**:

The firm did not perform any procedures to test certain expenses. (AS 2301.08)

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

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer J – Consumer Staples

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer recognized several types of revenue. The following deficiencies were identified:

- The firm selected a sample of transactions for certain types of revenue. The firm did not perform procedures, beyond obtaining invoices and cash receipts, to evaluate whether the issuer had satisfied its performance obligations prior to the recognition of revenue. (AS 2301.08 and .13)
- The firm did not perform any procedures to evaluate the relevance and reliability of a report from an external source that it used to test another type of revenue. (AS 1105.04 and .06)
- The firm did not perform any procedures to test another type of revenue. (AS 2301.08 and .13)
- The firm did not identify and evaluate the issuer's omission of disclosures related to revenue required by FASB ASC Topic 606. (AS 2810.30 and .31)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses. For two of the acquisitions, the issuer engaged a specialist to estimate the fair value of the acquired intangible assets. The following deficiencies were identified:

- The firm did not perform procedures to test the fair value of certain intangible assets, beyond obtaining and reading the company's specialist's valuation reports and the purchase price allocations. Further, the firm did not perform procedures, beyond assessing the knowledge, skills, and ability of the company's specialist and the specialist's relationship to the issuer, with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A6 - .A10; AS 2501.07)
- The firm did not perform procedures, beyond obtaining and reading the issuer's purchase price allocation, to test the fair value of certain other intangible assets. (AS 2501.07)
- The firm did not perform procedures to test the tangible assets acquired and liabilities assumed at the acquisition dates for these acquisitions. (AS 2301.08)
- The firm did not perform any procedures to test the purchase consideration for these acquisitions, including certain contingent consideration. (AS 2301.08; AS 2501.07)
- The firm did not identify and evaluate the issuer's omission of disclosures related to these business combinations required by FASB ASC Topic 805 and FASB ASC Topic 820. (AS 2810.30 and .31)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer K

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue and Related Accounts**, a **Business Combination**, and **Journal Entries**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts**:

The firm did not perform procedures to test revenue and accounts receivable, beyond obtaining issuer-produced reports and reports from external sources. (AS 2301.08)

The firm did not perform any procedures to test the allowance for doubtful accounts. (AS 2501.07)

With respect to a **Business Combination**:

During the year, the issuer entered into a reverse merger agreement. The firm did not perform any procedures to evaluate whether the issuer's accounting for this transaction was in conformity with FASB ASC Topic 805, *Business Combinations*. (AS 2301.08)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

Issuer L – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer entered into revenue arrangements with multiple elements and asserted that it allocated the total consideration from these arrangements between the different types of revenue based on the standalone selling prices. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate whether the issuer appropriately (1) identified the performance obligations for these arrangements; (2) determined the standalone selling prices; and (3) allocated the transaction price to each separate performance obligation based on the standalone selling price. (AS 2301.08 and .13)
- The issuer recognized one type of revenue over time based on costs incurred to date relative to total estimated costs to complete the contract. The firm did not perform procedures to test this revenue, beyond obtaining invoices, bank statements, purchase orders, and/or contracts. (AS 2501.07) In addition, the firm did not perform procedures to test the related contract receivables and liabilities. (AS 2501.07)
- For two types of revenue, the firm selected a sample of transactions for testing. The sample sizes the firm used in these substantive procedures were too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its sample sizes, including tolerable misstatement for the population, the allowable

risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23 and .23A)

- For one of the above two types of revenue, the firm did not perform procedures to evaluate whether the issuer met its performance obligations prior to recognizing revenue, beyond obtaining invoices, contracts, and/or cash receipts. (AS 2301.08 and .13)
- To test a fourth type of revenue, the firm selected a sample of transactions from one month. The firm did not perform any procedures to test the remaining population of revenue transactions. (AS 2315.24)
- The firm did not perform procedures to test the disclosures related to revenue, beyond comparing total revenues in the disclosures to the statement of operations. (AS 2301.08 and .13)
- The firm did not perform procedures, beyond obtaining the subledgers, to test accounts receivable and customer deposits. (AS 2301.08)
- The firm did not perform any procedures to test the allowance for doubtful accounts. (AS 2501.07)

With respect to **Business Combinations**:

During the year, the issuer acquired certain businesses and engaged a specialist to estimate the fair value of the acquired intangible assets and contingent consideration. The firm did not perform procedures to test the fair value of the intangible assets and contingent consideration, beyond obtaining and reading the company's specialist's valuation reports and the purchase price allocation for one of the business combinations. Further, the firm did not perform any 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 firm did not identify and evaluate the issuer's omission of disclosures related to these business combinations required by FASB ASC Topic 350 and FASB ASC Topic 805. (AS 2810.30 and .31)

With respect to **Journal Entries**:

The firm did not perform any procedures to identify and select journal entries and other adjustments for testing to address the potential for material misstatement due to fraud. (AS 2401.58)

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 11 of 12 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who performed the work and the date such work was completed and/or who reviewed the work and the date of such review. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In one of 12 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to determine who reviewed the work. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In six of 12 audits reviewed, the firm did not obtain the required engagement quality review for the audit. In these instances, the firm was non-compliant with AS 1220*, Engagement Quality Review*.

- In one of 12 audits reviewed, the work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand all of the procedures performed by the engagement quality reviewer, including evidence that the engagement quality reviewer evaluated the engagement team's responses to the significant risks identified. In this instance, the documentation of the engagement quality review was non-compliant with AS 1220, *Engagement Quality Review*.

- In eight of 12 audits reviewed, the firm did not make any of the required communications to the audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 12 audits reviewed, the firm did not make a required communication to the audit committee related to an overview of the overall audit strategy. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of 12 audits reviewed, the firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm did not make a required communication to the audit committee related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of 12 audits reviewed, the firm did not establish an understanding of the terms of the audit engagement with the audit committee, record such understanding in an engagement letter, and provide the engagement letter to the audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In four of 12 audits reviewed, the firm did not provide to management and the audit committee the required communications in writing of all material weaknesses identified during the audit. In these instances, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.
- In one of 12 audits reviewed, the firm did not communicate to the audit committee the definition of material weaknesses and clearly distinguish to which category the deficiencies being communicated relate. In this instance, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.
- In one of 12 audits reviewed, the firm communicated in writing to the audit committee that there were no significant deficiencies identified during the audit. In this instance, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.
- In one of 12 audits reviewed, the firm did not perform any risk assessment procedures to identify and assess risks of material misstatement. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In two of 12 audits reviewed, the firm did not perform analytical procedures as part of its risk assessment procedures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In 10 of 12 audits reviewed, the firm did not identify and assess the risks of material misstatement related to certain significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In 10 of 12 audits reviewed, the firm did not inquire of the audit committee, management, and/or others within the company about risks of material misstatement and/or fraud risks. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In eight of 12 audits reviewed, the firm did not identify a fraud risk related to the risk of management override of controls. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In six of 12 audits reviewed, the firm did not hold a discussion among the key engagement team members about the potential for material misstatement due to fraud. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of 12 audits reviewed, the firm did not provide management with a list of uncorrected misstatements to be included in or attached to the management representation letter. In this instance, the firm was non-compliant with AS 2805, *Management Representations*.
- In two of 12 audits reviewed, the firm's audit report incorrectly identified certain of the issuer's 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.*
- In one of 12 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 one of five audits reviewed, the engagement team did not perform any procedures to comply with the requirements related to critical audit matters. 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 critical audit matters should have been communicated in the auditor's report.
- In four of five 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 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 communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*
- In one of 12 audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one of 12 audits reviewed, the firm's report on Form AP included inaccurate information regarding the U.S. state of the office of the firm that issued the opinion. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of 12 audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by an other accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes 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 five instances across five issuers in 12 audits reviewed in which this circumstance appears to have occurred.

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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.