2023 Inspection WithumSmith+Brown, PC

(Headquartered in Princeton, New Jersey)

June 20, 2024

PCAOB RELEASE NO. 104-2024-111

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

EXECUTIVE SUMMARY

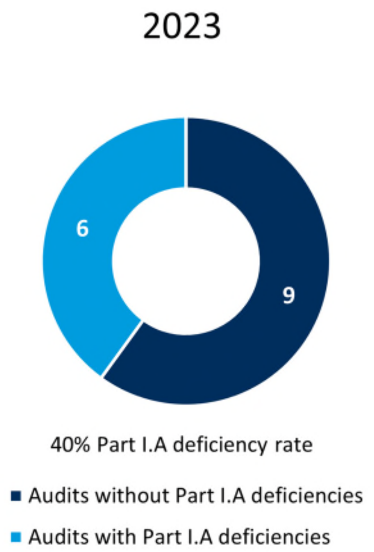
Our 2023 inspection report on WithumSmith+Brown, PC provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board (PCAOB) standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level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

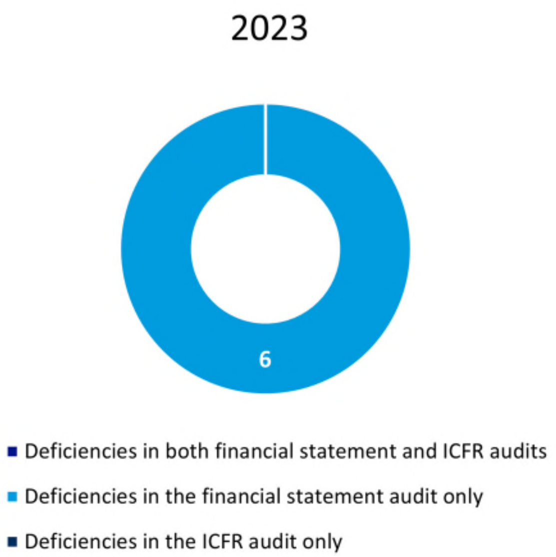
- Part I.A of the report discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial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

Six of the 15 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 and business combinations.





In connection with our 2023 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement.

The most common Part I.A deficiencies in 2023 related to testing an estimate, testing data or reports used in substantive testing, and performing substantive testing to address a risk of material misstatement.

The Part I.B deficiencies in 2023 related to audit committee communications, management representation letters, audit planning, auditor tenure, critical audit matters, the firm's audit report, and Form AP.

The Part I.C deficiencies in 2023 related to audit committee pre-approval and an indemnification clause.

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2023 INSPECTION

In the 2023 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 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.

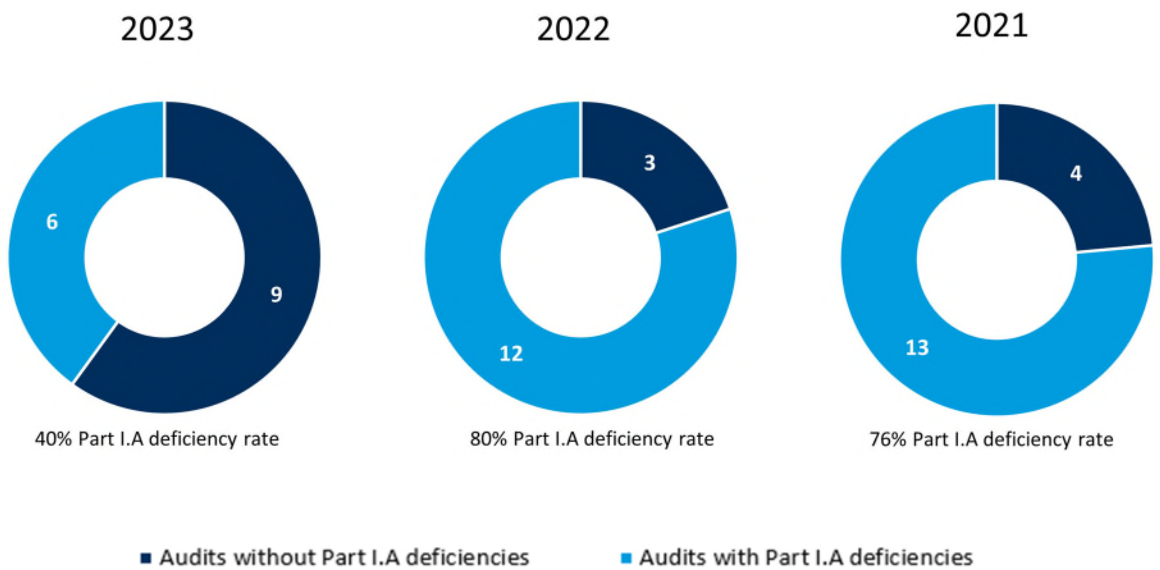
Audits Selected for Review

	2023	2022	2021
Total audits reviewed			
Total audits reviewed	15	15	17
Selection method			
Risk-based selections	13	13	11
Random selections	2	2	4
Target team selections[1]	0	0	2
Total audits reviewed	**15**	**15**	**17**
Principal auditor			
Audits in which the firm was the principal auditor	15	15	17
Audits in which the firm was not the principal auditor	0	0	0
Total audits reviewed	**15**	**15**	**17**
Audit type			
Integrated audits of financial statements and ICFR	4	2	0
Financial statement audits only	11	13	17
Total audits reviewed	**15**	**15**	**17**

[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 2023, all of the audits appearing in Part I.A were selected for review using risk-based criteria. 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.

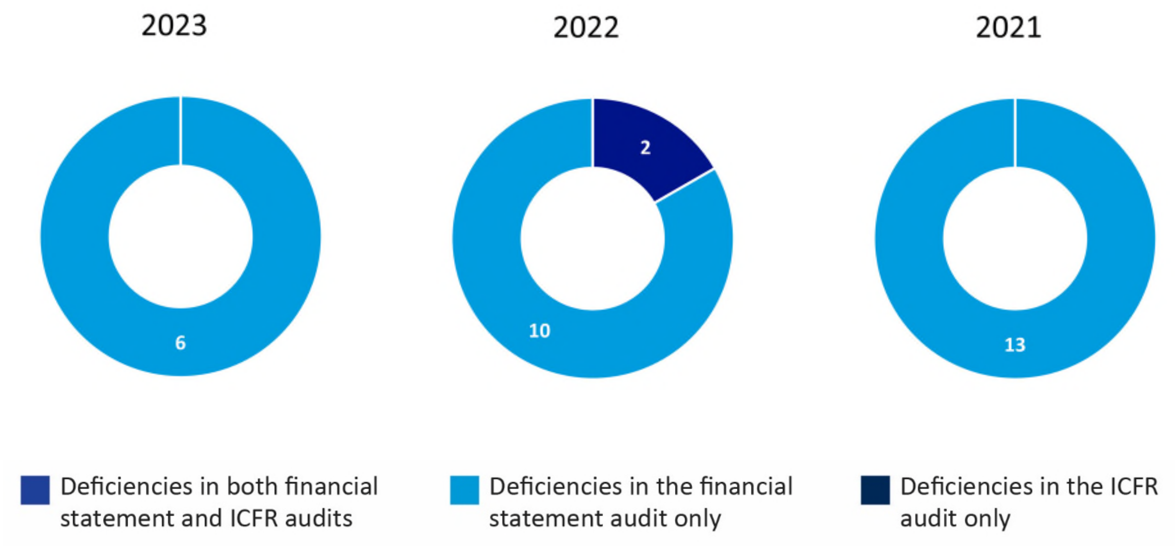


If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional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



In connection with our 2023 inspection procedures for one audit, the issuer restated its financial statements to correct a misstatement and also corrected an omission of certain required disclosures in a subsequent filing.

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 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 sufficiently test an estimate	5	8	9
Did not perform sufficient testing of data or reports used in the firm's substantive testing	2	3	2
Did not perform sufficient testing related to a significant account or disclosure or to address an identified risk	2	2	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	9	4	**Equity and equity-related transactions**	8	5	**Equity and equity-related transactions**	12	9
Equity and equity-related transactions	5	0	**Revenue and related accounts**	7	4	**Investment securities**	5	0
Investment securities	4	0	**Investment securities**	6	0	**Revenue and related accounts**	5	4
Business combinations	3	3	**Business combinations**	5	4	**Business combinations**	4	2
Goodwill and intangible assets	3	1	**Expenses**	2	1	**Goodwill and intangible assets**	3	1

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	4	9	4	7	4	5
Business combinations	3	3	4	5	2	4
Goodwill and intangible assets	1	3	1	1	1	3
Equity and equity-related transactions	0	5	5	8	9	12

Revenue and related accounts: The deficiencies in 2023 related to substantive testing of revenue, including testing estimated costs to complete contracts recognized over time. 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.

Business combinations: The deficiencies in 2023 and 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.

Goodwill and intangible assets: The deficiencies in 2023 related to evaluating intangible assets for possible impairment. The deficiencies in 2022 related to substantive testing of, and testing controls over, intangible assets. The deficiencies in 2021 related to substantive testing of goodwill and intangible assets.

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.

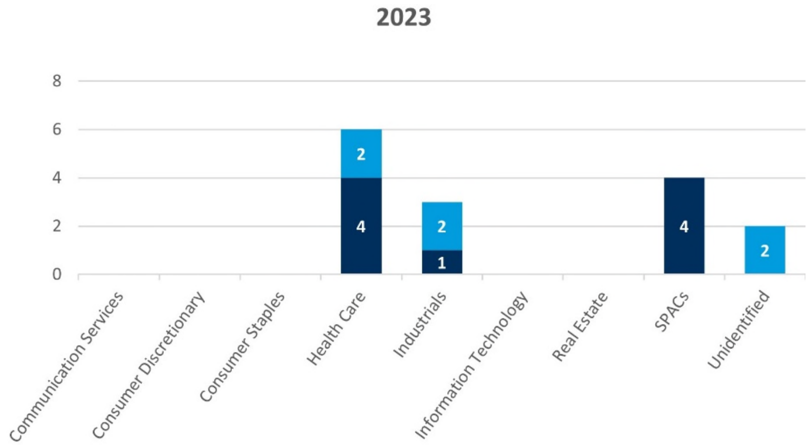
Auditing Standards Associated with Identified Part I.A Deficiencies

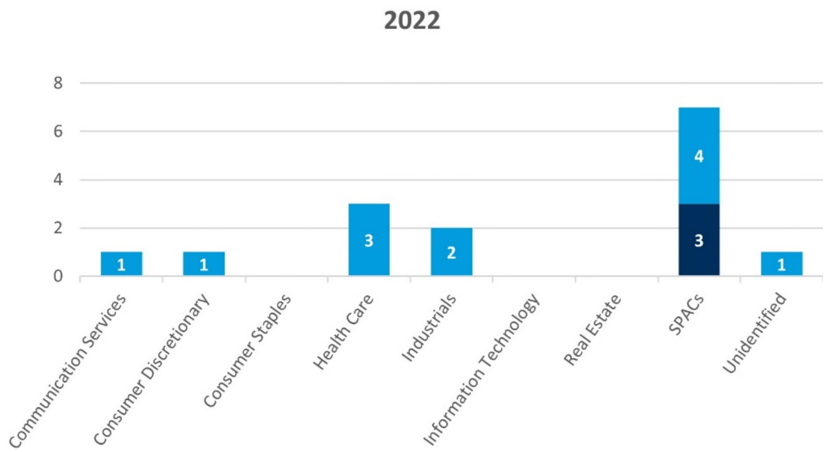
The following lists the auditing standards referenced in Part I.A of the 2023 and the previous two inspection reports, and the number of times that the standard is cited in Part I.A.

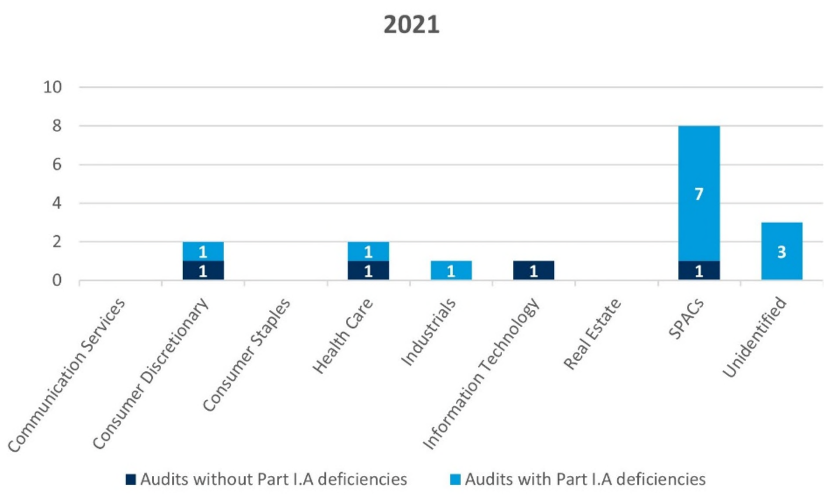
PCAOB Auditing Standards	2023	2022	2021
AS 1105, *Audit Evidence*	4	7	9
AS 1201, *Supervision of the Audit Engagement*	0	5	6
AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*	0	2	0
AS 2301, *The Auditor's Responses to the Risks of Material Misstatement*	3	7	4
AS 2305, *Substantive Analytical Procedures*	1	0	0
AS 2315, *Audit Sampling*	0	1	0
AS 2401, *Consideration of Fraud in a Financial Statement Audit*	0	3	0
AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements* (effective for fiscal years ending on or after December 15, 2020)	7	11	7
AS 2501, *Auditing Accounting Estimates* (effective for fiscal years ending before December 15, 2020)	-	-	2
AS 2502, *Auditing Fair Value Measurements and Disclosures* (effective for fiscal years ending before December 15, 2020)	-	-	1
AS 2810, *Evaluating Audit Results*	4	4	19

Inspection Results by Issuer Industry Sector

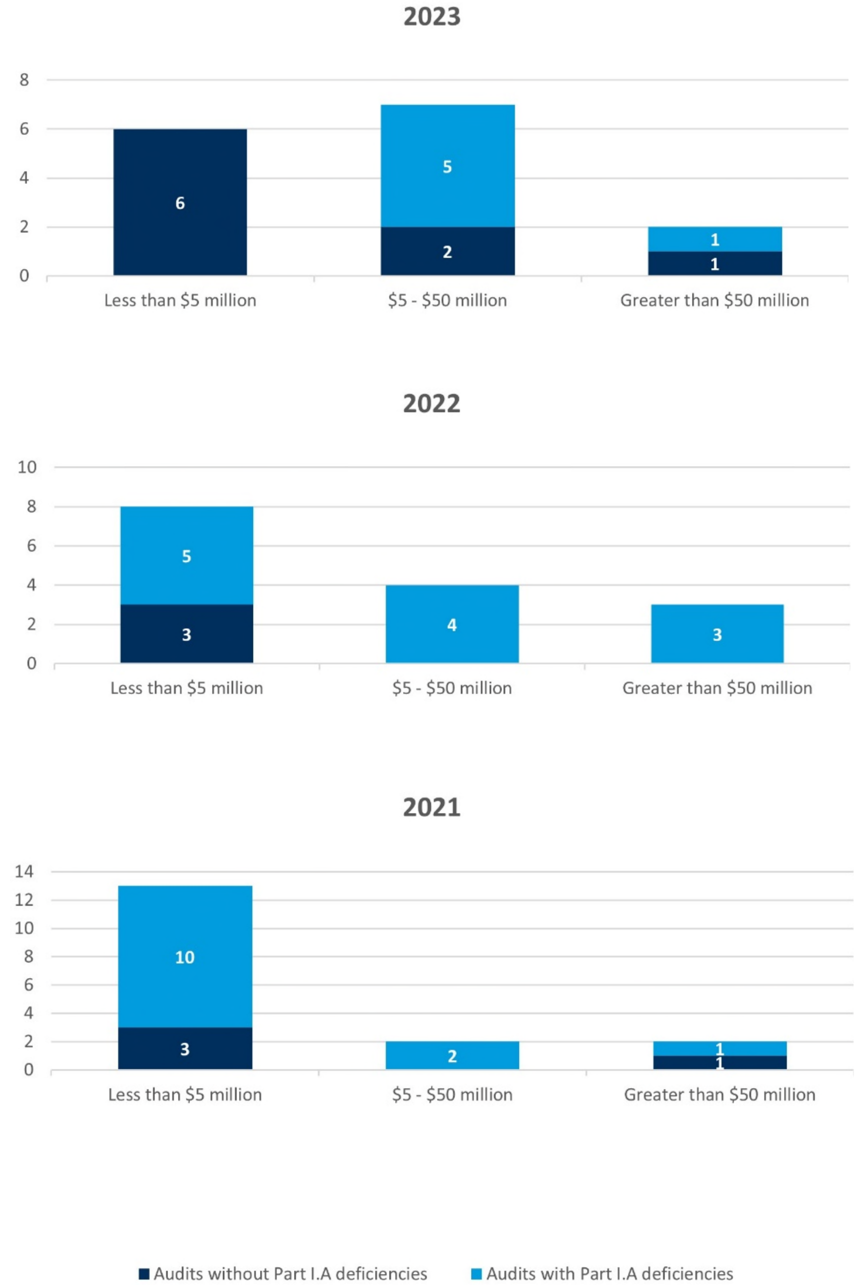
The majority of industry sector data is based on Global Industry Classification Standard (GICS) data obtained from Standard & Poor's (S&P). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data.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



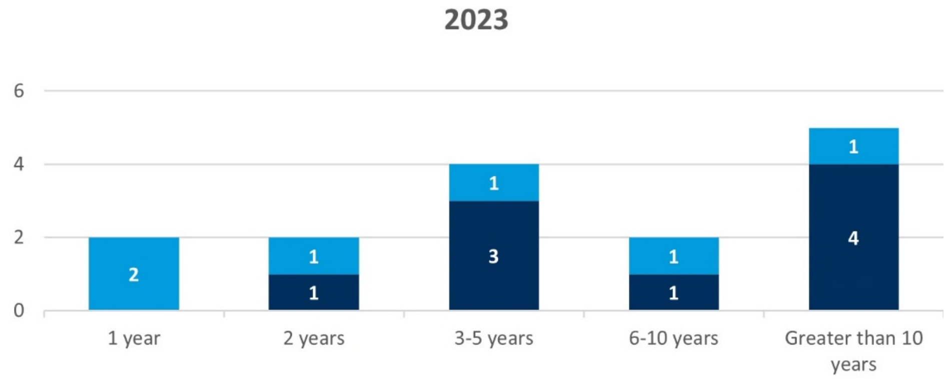


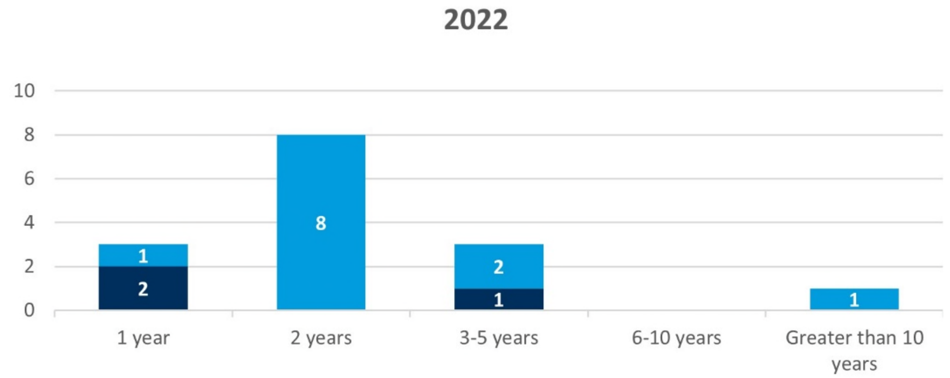


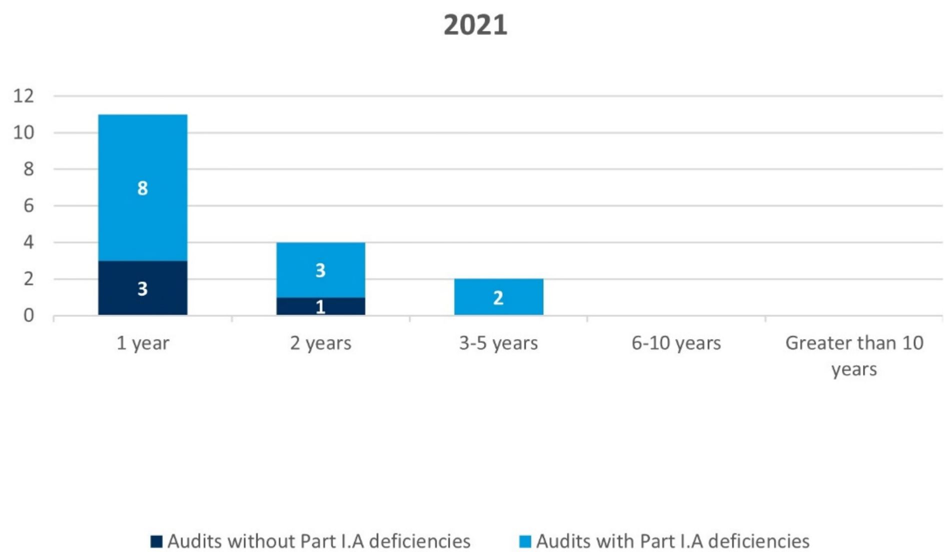
Inspection Results by Issuer Revenue Range



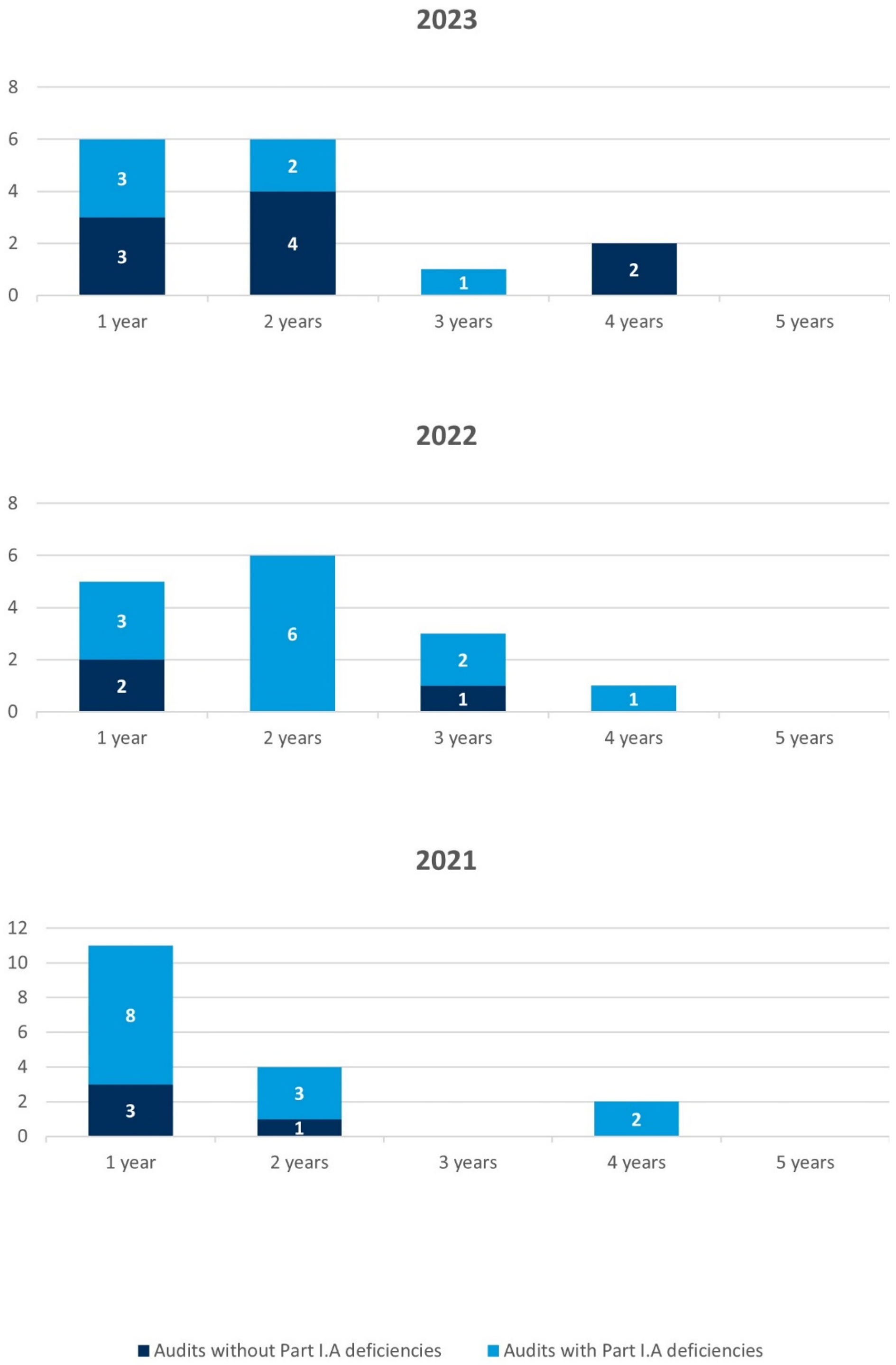
Inspection Results by the Firm's Tenure on the Issuer







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



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.

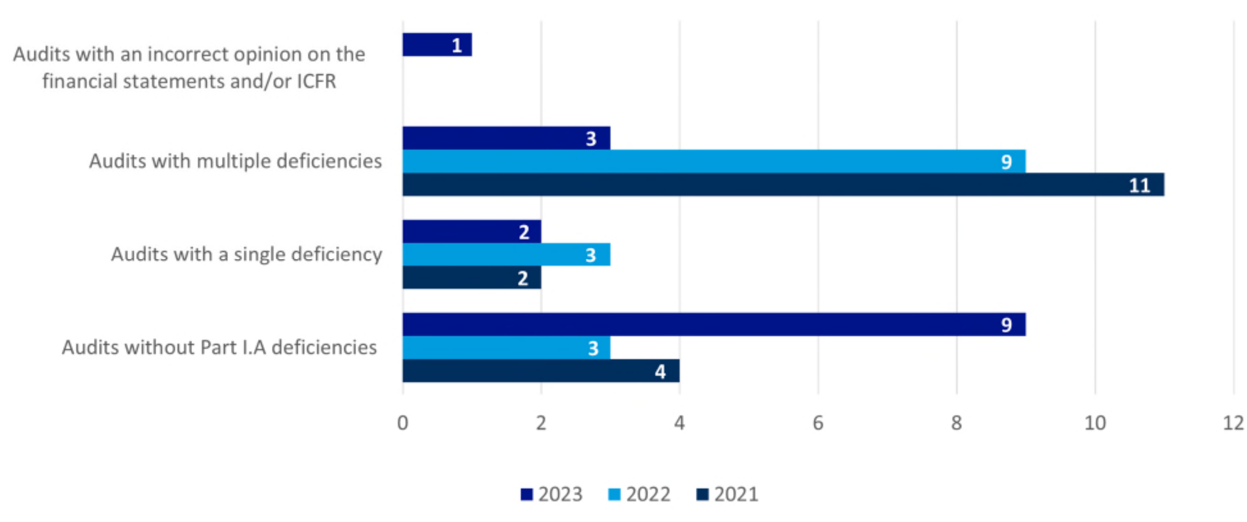
Audits with Multiple Deficiencies

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

Issuer A – Industrials

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The firm did not identify and evaluate the issuer's omission of a required disclosure under FASB ASC Topic 606, *Revenue from Contracts with Customers*, related to significant payment terms. (AS 2810.30 and .31)

For one type of revenue, the issuer determined that it was the agent in the arrangements with its customers and recognized revenue on a net basis. The firm did not identify and evaluate a misstatement in the issuer's disclosures related to this revenue, in which the issuer disclosed it was the principal and recognized revenue on a gross basis. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated this disclosure and concluded that a misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements.

For another type of revenue, the firm did not perform any substantive procedures, beyond reading an issuer-prepared memorandum, to evaluate whether the issuer's recognition of this revenue and related disclosure was in conformity with FASB ASC Topic 606. (AS 2301.08 and .13)

For both types of revenue at one of the issuer's business units, the firm did not perform any procedures to test whether the performance obligation had been satisfied when revenue was recognized for certain transactions that the firm selected for testing. (AS 2301.08 and .13)

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

During the year, the issuer acquired two businesses and determined the fair values of certain acquired intangible assets using cash-flow forecasts.

For one business combination, the issuer engaged a specialist to determine the fair values of certain acquired intangible assets and contingent consideration. The firm's approach for substantively testing the fair values of these intangible assets and the contingent consideration was to test the issuer's process. The following deficiencies were identified:

- The firm did not sufficiently evaluate the reasonableness of certain significant assumptions developed by the company's specialist or the issuer and used by the company's specialist, including not sufficiently taking into account the issuer's intent and ability to carry out the cash-flow forecasts that assumed significant revenue growth, because its procedures were limited to inquiring of management, comparing these assumptions to historical financial information, and for the first year of the cash-flow forecasts, using historical financial information to corroborate management's explanations for certain differences between these assumptions and actual results. (AS 1105.A8b; AS 2501.16 and .17)
- The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of the historical financial information that (1) it used in evaluating the reasonableness of the significant assumptions discussed above and (2) the company's specialist used in determining the fair value of the contingent consideration. (AS 1105.10 and .A8a)

For both business combinations, the firm did not identify and evaluate the issuer's omission of certain disclosures required under FASB ASC Topic 805, *Business Combinations*, and FASB ASC Topic 820, *Fair Value Measurement*. (AS 2810.30 and .31)

In connection with our review, the issuer reevaluated its disclosures related to these business combinations and determined that certain disclosures were omitted. The issuer did not file an amended Form 10-K or Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected these omissions in a subsequent filing.

Audits with Multiple Deficiencies

Issuer B – Health Care

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer recognized revenue from a contract over time based on costs incurred to date relative to total estimated costs to complete. The firm did not perform any substantive procedures to evaluate the reasonableness of the significant assumptions that the issuer used to develop the estimated costs to complete this contract, beyond inquiring of project managers. (AS 2501.16)

With respect to **Intangible Assets**, for which the firm identified a significant risk:

The issuer performed a qualitative assessment of possible impairment for one intangible asset and a quantitative assessment of possible impairment for another intangible asset. The following deficiencies were identified:

- The firm did not perform any substantive procedures to test the issuer's quantitative assessment, beyond reading an issuer-prepared memorandum and inquiring of issuer personnel. (AS 2501.07)
- The firm did not perform any substantive procedures to evaluate an indicator of potential impairment that existed at year end for the intangible asset subject to the issuer's qualitative assessment, beyond reading an issuer-prepared memorandum. (AS 2301.08 and .11; AS 2810.03)

Issuer C

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business and determined the fair value of certain acquired intangible assets using cash-flow forecasts. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate the reasonableness of certain significant assumptions that the issuer used in these cash-flow forecasts. (AS 2501.16)

- The firm did not sufficiently evaluate the reasonableness of certain other significant assumptions that the issuer used in these cash-flow forecasts, including not sufficiently taking into account the issuer's intent and ability to carry out these cash-flow forecasts, because its procedures were limited to comparing these assumptions to historical financial information and reading a purchase commitment agreement for one customer. (AS 2501.16 and .17)

Issuer D – Health Care

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business and engaged a specialist to determine the fair values of the acquired assets, including certain intangible assets. The following deficiencies were identified:

- The firm did not evaluate the relevance and reliability of the external data that the company's specialist used to determine the fair values of these intangible assets. (AS 1105.A8a)

- The firm did not perform any procedures, beyond reading the valuation report prepared by the company's specialist and inquiring of management, to evaluate the reasonableness of the significant assumptions that were developed by the company's specialist or the issuer and used by the company's specialist to determine the fair values of these intangible assets. (AS 1105.A8b; AS 2501.16)

Audits with a Single Deficiency

Issuer E – Industrials

Type of audit and related area affected

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

Description of the deficiency identified

The issuer recognized revenue from certain contracts over time based on costs incurred to date relative to total estimated costs to complete. The firm did not perform any substantive procedures to evaluate the reasonableness of the significant assumptions that the issuer used to develop the estimated costs to complete the contracts that the firm selected for testing. (AS 2501.16)

Issuer F

Type of audit and related area affected

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

Description of the deficiency identified

The firm's substantive procedures to test certain revenue consisted of performing substantive analytical procedures. The firm used data produced by the issuer to develop its expectations but did not test, or test controls over, the accuracy and completeness of certain of these data. (AS 2305.16)

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of 15 audits reviewed, the firm did not make a required communication to the audit committee related to the issuer's critical accounting policies and practices. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In two of 15 audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In one of 15 audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In this instance, the firm was non-compliant with AS 2101, *Audit Planning*.
- In one of five 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 five of 10 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 audit committee and that related to accounts or disclosures that were material to the financial statements. In one of these audits and one additional audit reviewed, the engagement team did not take into account certain required factors in determining whether or not one or more matters were critical audit matters. 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 11 audits reviewed, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In this instance, the

firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.

- In one of 15 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. In 15 audits reviewed, we identified three instances across two issuers in which this circumstance appears to have occurred related to certain audit services.
- An audit client's agreement to indemnify its auditor with respect to certain liabilities is inconsistent with the general standard of independence set out in Rule 2-01(b) of Regulation S-X and impairs the accountant's independence with respect to an audit client. In 15 audits reviewed, we identified one instance for one issuer in which this circumstance 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 timely written response.