2023 Inspection
Armanino LLP

(Headquartered in San Ramon, California)

November 21, 2024

PCAOB RELEASE NO. 104-2025-001

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2023 INSPECTION

In the 2023 inspection of Armanino LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review four audits of issuers, with fiscal years ending in 2022 and 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2023 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

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

OVERVIEW OF THE 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 inspection as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2023	2021
Firm data		
Total issuer audit clients in which the firm was the principal auditor	41	15
Total engagement partners on issuer audit work[1]	16	7
Audits reviewed		
Total audits reviewed	4	2
Audits in which the firm was the principal auditor	4	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	1	2
Audits with Part I.A deficiencies	4	2
Percentage of audits with Part I.A deficiencies	100%	100%

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2023 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2023		2021	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	3	**Revenue and related accounts**	2
Long-lived assets	2	**A significant account**	1
Inventory	1	**Cash and cash equivalents**	1
Investment securities	1		
Significant accounts	1		

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

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

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

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

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

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

Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion(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 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 and ICFR audits related to **Revenue and Related Accounts** and **Inventory**.

Description of the deficiencies identified

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

The firm selected for testing certain controls over the reconciliation and/or review of various accounts, including certain accounts related to revenue and inventory. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

In addition, the firm did not identify and test any controls over (1) the accuracy and completeness of issuer-produced information used in the operation of the above controls and (2) the relevance and reliability of certain external information related to inventory used in the operation of one of the above controls. (AS 2201.39)

With respect to **Inventory**:

The issuer recorded an inventory reserve and the firm's approach for substantively testing the inventory reserve was to test the issuer's process. The following deficiencies were identified:

- The firm did not perform procedures to test, or (as discussed above) identify and test controls over, the accuracy and completeness of certain issuer-produced information used by the issuer to develop the inventory reserve. (AS 1105.10)

- The firm did not perform procedures to evaluate, or (as discussed above) identify and test controls over, the relevance and reliability of certain external information that the issuer used to develop the inventory reserve. (AS 1105.04 and.06)

- The firm did not perform procedures to evaluate the reasonableness of the significant assumptions. (AS 2501.16)

Issuer B – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The firm did not perform sufficient substantive procedures to evaluate whether certain revenue was recognized in conformity with IFRS 15, *Revenue from Contracts with Customers,* because it did not evaluate, beyond reading the issuer's revenue recognition policy, (1) each party's rights regarding the goods or services to be transferred and (2) the payment terms for the goods or services to be transferred. (AS 2301.08 and .13)

To evaluate the reliability of certain external information the firm used to test revenue, the firm sent a positive confirmation request to the external party and received an electronic response. The firm did not consider performing procedures to address the risks associated with the electronic response, such as verifying the source and contents of the confirmation response. (AS 2310.29)

The firm did not perform any procedures to evaluate the reliability of certain external information it used to test revenue. (AS 1105.04 and .06)

The firm's substantive procedures to test this revenue included performing a substantive analytical procedure. The firm used external data in developing its expectation but did not perform any procedures to evaluate the reliability of that data. (AS 2305.16)

The sample size the firm used in one of its substantive procedures to test revenue was too small to provide sufficient appropriate audit evidence because this procedure was designed based on a level of reliance on evidence from other substantive procedures that was not supported due to the deficiency in the firm's substantive analytical procedure discussed above. (AS 2315.19, .23, and .23A)

With respect to **Long-Lived Assets**, for which the firm identified a significant risk:

The issuer performed a quantitative assessment of impairment of certain long-lived assets and engaged an external specialist to provide information it used to develop an assumption. The firm's approach for substantively testing the impairment of long-lived assets was to test the issuer's process and the firm used an auditor-employed specialist to evaluate the methodology used by the issuer and a significant assumption the issuer developed. The following deficiencies were identified:

- The firm did not perform sufficient procedures to evaluate the reasonableness of a significant assumption developed by the issuer because it did not evaluate the significant difference between it and a significant assumption used by the issuer in another estimate tested. (AS 2501.16)

- The firm did not perform procedures, beyond inquiry, to evaluate the reasonableness of certain other significant assumptions developed by the issuer. (AS 2501.16)

- The firm did not perform procedures to evaluate whether the issuer had a reasonable basis for another significant assumption it developed. (AS 2501.16)

- The firm did not sufficiently evaluate the reasonableness of another significant assumption, because it did not identify that the auditor-employed specialist did not (1) evaluate the relevance of certain internal and external information it used to evaluate the reasonableness of the assumption and (2) evaluate significant differences between the assumption and both external information it obtained and information provided by the company's specialist. Further, the firm did not perform procedures to use the work of the company's specialist as audit evidence. (AS 1105.04, .06, and .A1-.A10; AS 1201.C6 and .C7; AS 2501.16)

- The firm did not sufficiently evaluate whether the method used by the issuer to perform its quantitative assessment was in conformity with International Accounting Standard (IAS) 36, *Impairment of Assets*, because it did not identify that the auditor-employed specialist did not evaluate the effect on the quantitative assessment resulting from departures from IAS 36 it identified in the issuer's method. (AS 1201.C6 and .C7; AS 2501.10)

- The firm did not evaluate the relevance and/or reliability of certain external information it used to test the quantitative assessment. (AS 1105.04 and .06)

- The firm did not perform procedures to test, or test any controls over, the accuracy and completeness of issuer-produced data used by the issuer to develop a significant assumption used in its quantitative assessment. (AS 1105.10)

The firm did not evaluate the appropriateness of the presentation of certain long-lived assets. (AS 2301.08)

Issuer C – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

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

- For one type of revenue, the firm did not perform procedures to evaluate whether the underlying contracts represented contracts with an identifiable customer in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2301.08 and .13)

- The firm did not perform substantive procedures to evaluate the relevance and/or reliability of certain external information it used to test two types of revenue. (AS 1105.04 and.06)

- The firm's substantive procedures to test one type of revenue included performing substantive analytical procedures. The firm used external data in developing its expectation but did not perform any procedures to evaluate the reliability of that data. (AS 2305.16)

- The firm did not perform procedures to test, or test any controls over, the accuracy and completeness of certain issuer-produced information it used to test two types of revenue. (AS 1105.10)

Issuer D

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Investment Securities** and a **Significant Account**.

Description of the deficiencies identified

With respect to **Investment Securities**, for which the firm identified a significant risk:

The issuer reported the valuation of certain investments based on investee financial results, including unaudited financial statements. The firm did not apply, or request that the investor arrange with the investee to have another auditor apply, appropriate auditing procedures to the unaudited financial statements for these investees. (AS 1105.B3)

With respect to a **Significant Account**, for which the firm identified a significant risk:

The issuer engaged a specialist to develop an estimate of a significant account. The firm selected a sample to test the accuracy and completeness of certain data used by the company's specialist. The firm did not sufficiently test the accuracy and completeness of this data, because it selected its sample from a sub-population of the data. (AS 1105.A8a) In addition, the firm did not test the accuracy of certain other data that the company's specialist used to develop a significant assumption. (AS 1105.A8a)

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 two of four audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.

- In two of four audits reviewed, the firm provided certain services to the issuer but did not document that the audit committee had approved the engagements before the issuer engaged the firm to provide the services. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In three of four audits reviewed, the firm did not make a required communication to the audit committee related to the name, location, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In two of these audits, the firm did not make a required communication to the audit committee related to the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks. In one of these audits, the firm did not make required communications to the audit committee related to an overview of the overall audit strategy. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of four 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 four audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.

- In two of four 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 these instances, the firm was non-compliant with AS 2101, *Audit Planning*.

- In one of four audits reviewed, the firm did not inquire of the audit committee about the risks of material misstatement, including fraud risks. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In one audit reviewed, the firm's audit report did not state the year the firm began serving consecutively as the company's auditor. 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 three of three audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include one or more 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 two of four audits reviewed, the firm's report on Form AP either omitted or included inaccurate information regarding the issuer CIK number. In two other audits reviewed, the firm's report on Form AP omitted information related to the participation in the audit by other accounting firms. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one audit, the firm described in writing to the audit committee certain relationships that may have been reasonably thought to bear on the firm's independence but then affirmed that it was independent in compliance with PCAOB Rule 3520, *Auditor Independence*. In this instance, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence.*

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that the firm brought to our attention, 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 did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, two instances across two issuers,[2] in which the firm appeared to have impaired its independence because it may not have complied with Rule 2-01(c) of Regulation S-X or PCAOB Rule 3523 related to maintaining independence.

While we have not evaluated the underlying reasons for the 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 any associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of these firm-identified instances of potential non-compliance across firms.

The instances of potential non-compliance related to non-audit services and tax services for persons in financial reporting oversight roles:

- The firm reported one instance of potential non-compliance with Rule 2-01(c)(4) of Regulation S-X regarding non-audit services that the firm determined to be prohibited.
- The firm reported one instance of non-compliance with PCAOB Rule 3523 regarding tax services provided to a person in a financial reporting oversight role at the issuer.

[2] The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

The firm has reported to us that it has evaluated these instances of potential non-compliance and determined in all instances that its objectivity and impartiality were not impaired. The firm also reported to us that, where applicable, it has communicated all of these instances to the audit committees in accordance with PCAOB Rule 3526.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM’S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm’s response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm’s comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm’s response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm’s comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm’s response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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October 28, 2024

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

Re: Response to Draft Report on the 2023 Inspection of Armanino LLP

Dear Mr. Gunia:

We are pleased to provide our response to the Public Company Accounting Oversight Board's (the "PCAOB") Draft Report on the 2023 Inspection of Armanino LLP (the "Draft Report").

We have evaluated the matters identified by the PCAOB's inspection team for each of the issuer audits described in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities under *AS 2901, Consideration of Omitted Procedures After the Report Date, and AS 2905, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report.*

We believe that the PCAOB's inspection process serves an important role in advancing audit quality, protecting investors, and serving the public interest. We carefully consider inspection comments and observations in evaluating the effectiveness of our system of quality control and we continue to make substantial investments in our people, our audit methodology, and our other intellectual and technological resources. We remain committed to performing high quality audits and are confident that these efforts are driving significant, sustainable improvements in audit quality.

We look forward to continuing our dialogue with the PCAOB and would be pleased to discuss any aspects of this response or any other questions you may have.

Sincerely,

Armanino LLP

Armanino LLP