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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of RBSM LLP,*

Respondent.

PCAOB Release No. 105-2021-004

August 9, 2021

By this Order, the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is imposing sanctions upon RBSM LLP (“Respondent,” “RBSM,” or the “Firm”). The Board is:

- (1) Censuring Respondent;
- (2) Imposing a civil money penalty of \$50,000 on Respondent; and
- (3) Requiring Respondent to engage an independent consultant for a period of three years to review and make recommendations concerning RBSM’s quality control policies and procedures.

The Board is imposing these sanctions on the basis of its findings that the Firm violated PCAOB rules and quality control standards by failing to take sufficient steps from 2015 through 2018 to ensure that its system of quality control provided reasonable assurance that its personnel complied with applicable professional standards and the Firm’s standards of quality, despite auditing and quality control concerns repeatedly brought to the Firm’s attention through several PCAOB inspections.

### I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rule 5200(a)(1) against Respondent.

## II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), as set forth below.<sup>1</sup>

## III.

On the basis of Respondent’s Offer, the Board finds that<sup>2</sup>:

### A. Respondent

1. **RBSM LLP** is a limited liability partnership organized under the laws of the state of Virginia with headquarters in McLean, Virginia. The Firm has offices in multiple locations, including in Larkspur, California; Henderson, Nevada; New York, New York; Beijing, China; and Mumbai and Pune, India. The Firm is licensed to practice public accounting by the state of Virginia (License No. 132879), among others. The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

### B. Summary

2. This matter concerns the Firm’s failure to comply with PCAOB rules and quality control standards. The Firm failed to establish engagement performance and monitoring policies and procedures sufficient to provide it with reasonable assurance that its policies and procedures were suitably designed and effectively applied. During the period from 2014 through 2017, PCAOB inspectors repeatedly brought concerns to the Firm’s attention related to significant deficiencies in various audit areas, and raised concerns that RBSM’s system of quality control failed to provide reasonable assurance of complying with the related professional

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<sup>1</sup> The findings herein are made pursuant to the Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> The Board finds that the Firm’s conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

standards. Despite the Firm's awareness of these deficiencies and concerns, the Firm's internal monitoring procedures failed to provide reasonable assurance that its system of quality control was effective, and the Firm failed to make changes to improve its system of quality control, as indicated by the repeated significant deficiencies in the 2014 through 2017 inspections and a subsequent 2019 inspection.

### C. The Firm Violated PCAOB Rules and Quality Control Standards

3. PCAOB rules require a registered public accounting firm to comply with PCAOB quality control standards.<sup>3</sup> These standards require that a registered firm have a system of quality control for its accounting and auditing practice.<sup>4</sup> "A firm's system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of complying with professional standards."<sup>5</sup>

4. A firm's system of quality control should, among other things, include policies and procedures for engagement performance.<sup>6</sup> A firm should establish policies and procedures to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>7</sup> Quality control policies and procedures for engagement performance encompass all phases of the design and execution of an engagement.<sup>8</sup> To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating

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<sup>3</sup> See PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*, and 3400T, *Interim Quality Control Standards*. As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (Jan. 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards.

<sup>4</sup> See Quality Control Standard 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20"), .01.

<sup>5</sup> QC § 20.04.

<sup>6</sup> See QC § 20.07.

<sup>7</sup> QC § 20.17.

<sup>8</sup> QC § 20.18.

the results of each engagement.<sup>9</sup> These policies and procedures also should address engagement quality reviews.<sup>10</sup>

5. A firm should also establish policies and procedures to provide the firm with reasonable assurance that its quality control policies and procedures are suitably designed and are being effectively applied.<sup>11</sup> Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective. Procedures that provide the firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the firm's policies and procedures contribute to the monitoring element. Among other things, a firm's monitoring procedures may include inspection procedures, preissuance or postissuance review of selected engagements, determination of any corrective actions to be taken and improvements to be made in the quality control system, communication to appropriate firm personnel of any weaknesses identified, and follow-up to ensure that any necessary modifications are made to the quality control system on a timely basis.<sup>12</sup>

6. Inspection procedures, as a part of a firm's system of quality control, evaluate the adequacy of a firm's policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the firm's compliance with its quality control policies and procedures.<sup>13</sup> Inspection procedures contribute to the monitoring function because findings are evaluated and changes in, or clarifications of, quality control policies and procedures are considered.<sup>14</sup>

7. To provide reasonable assurance that the firm's quality control system achieves its objectives, appropriate consideration should be given to the assignment of quality control responsibilities within the firm, the means by which quality control policies and procedures are communicated, and the extent to which the policies and procedures and compliance should be documented.<sup>15</sup>

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<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> See QC § 20.20; Quality Control Standard 30, *Monitoring a CPA Firm's Accounting and Auditing Practice* ("QC § 30"), .02.

<sup>12</sup> QC § 30.03. See also QC § 30.04 - .08.

<sup>13</sup> QC § 30.04.

<sup>14</sup> *Id.*

<sup>15</sup> QC § 20.21.

8. PCAOB quality control standards further require that a firm prepare appropriate documentation to demonstrate compliance with its quality control policies and procedures, including monitoring, and that such documentation be retained for a period of time sufficient to enable those performing monitoring procedures and a peer review to evaluate the extent of the firm's compliance with its quality control policies and procedures.<sup>16</sup>

**i. RBSM Received Notice of Significant Audit Deficiencies in the Firm's Audits through Repeat Notifications in Multiple PCAOB Inspections**

9. During the time period from 2014 through 2019, the PCAOB inspection staff notified the Firm of repeated significant audit deficiencies that raised concerns about the Firm's engagement performance. The initial instances of these deficiencies provided the Firm with notice of engagement performance issues. Subsequent findings of deficiencies provided continuing notice and indicated the Firm's system of quality control had failed to adequately address the deficiencies noted in previous inspections.

10. In 2014, PCAOB inspection staff conducted an inspection of the Firm. In connection with the inspection, between July 2014 and February 2015, PCAOB inspection staff informed the Firm of its findings regarding significant audit deficiencies in RBSM issuer audits related to revenue testing, specifically audit sampling and substantive analytical reviews, and engagement quality reviews (EQR). With respect to the EQR deficiencies, certain work papers, including documentation of significant judgments related to engagement planning and the engagement completion document, that should have been reviewed by the engagement quality review partner prior to granting permission for the issuer to use the Firm's audit reports to satisfy the requirements of AS No. 7, *Engagement Quality Review*, were not completed by the engagement team until after the audit report release date.<sup>17</sup>

11. In 2015, PCAOB inspection staff conducted another inspection of the Firm. In connection with the inspection, between January 2016 and February 2016, PCAOB inspection staff informed the Firm of its findings regarding significant audit deficiencies in numerous RBSM issuer audits related again to revenue testing, specifically audit sampling, and EQRs. With respect to the EQR deficiencies, the inspection staff noted that, among other issues, documentation of the EQR did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to identify the documents reviewed by, or otherwise to understand the procedures performed by, the engagement quality review partner.<sup>18</sup> In addition, the inspection staff also identified audit deficiencies in fair value assumptions and using the work of specialists.

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<sup>16</sup> QC § 20.25.

<sup>17</sup> See AS No. 7 (now AS 1220) at ¶¶ 9-12.

<sup>18</sup> *Id.* at ¶ 19.

12. In 2017, PCAOB inspection staff conducted an inspection of the Firm. In connection with the inspection, during 2017, PCAOB inspection staff informed the Firm of its findings regarding significant audit deficiencies in numerous RBSM issuer audits related to revenue testing, fair value assumptions, using the work of specialists, and EQRs. With respect to the EQR deficiencies, the inspection staff noted that, among other issues, documentation of the EQR did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to identify the documents reviewed by, or otherwise to understand the procedures performed by, the engagement quality review partners.<sup>19</sup>

13. In 2019, PCAOB inspection staff conducted an inspection of the Firm. In connection with the inspection, between October 2019 and January 2020, PCAOB inspection staff informed the Firm regarding significant audit deficiencies in numerous RBSM issuer audits related to revenue testing, fair value assumptions and using the work of specialists, and EQRs. With respect to the EQR deficiencies, PCAOB inspection staff identified one or more deficiencies in areas that the engagement quality review partners were required to evaluate, such as the engagement teams' assessment of, and audit responses to, areas of significant risk, including in some cases a fraud risk.<sup>20</sup>

**ii. Despite the Repeat, Significant Audit Deficiencies, the Firm's Quality Control Policies and Procedures Failed to Provide Reasonable Assurance That They Were Suitably Designed and Being Effectively Applied from 2015 through 2018**

14. From 2015 through 2018, the engagement performance element of the Firm's system of quality control failed to provide the Firm with reasonable assurance that the work performed by its engagement personnel met applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>21</sup> In addition, the Firm's monitoring procedures were limited to inspections ("Internal Inspections") that were deficient and failed to provide the Firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the Firm's policies and procedures that contribute to the monitoring element.<sup>22</sup>

15. During 2015, the Firm's written policy stated that an integral part of its monitoring process for its system of quality control would be annual Internal Inspections. During the period from 2016 through 2018, the Firm's updated written policy stated that its system of quality control would be monitored on an ongoing basis through "pre-issuance

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<sup>19</sup> *Id.*

<sup>20</sup> *Id.* at ¶ 10.

<sup>21</sup> *See* QC § 20.17.

<sup>22</sup> *See* QC § 30.03.

reviews of reports, financial statements and notes to financial statements, engagement quality control review, where applicable, and [Internal Inspections].”

16. While the Firm performed Internal Inspections annually during the period from 2015 through 2018, these procedures were ineffective. The Firm’s quality control policies on monitoring stated that a team, not “directly involved in the administration, supervision, or performance of the QC procedures or engagements each will inspect,” would be selected to perform inspection procedures. Nevertheless, during these years, the Firm’s managing partner was solely responsible for and performed all Internal Inspections for the Firm, including audits in which he had served as the engagement quality review partner. This led to a higher risk that noncompliance with the Firm’s quality control policies and procedures would not be detected.<sup>23</sup>

17. To address requirements that a firm’s monitoring element provide it with reasonable assurance that its policies and procedures for each of the other elements of its system of quality control are suitably designed and were being effectively applied,<sup>24</sup> the Firm’s policies indicated that inspection procedures were to be performed on all elements of the Firm’s quality control system, at least annually. Notwithstanding the requirements of quality control standards and the Firm’s policies, the Internal Inspections conducted by the managing partner of the Firm were limited to the engagement performance element of quality control.

18. In addition, the Firm’s Internal Inspections failed to identify any deficiencies in the engagement performance for any audits reviewed, other than in the 2015 Internal Inspection report, which noted only two documentation deficiencies. In fact, a number of audits documented in the Firm’s Internal Inspections as having no deficiencies were subsequently found in later PCAOB inspections to contain significant audit deficiencies.

19. Despite the Firm’s awareness that PCAOB inspectors had found repeated engagement performance deficiencies in specific audits, the Firm’s monitoring process did not consider and evaluate the adequacy of RBSM’s policies and procedures in light of these findings.<sup>25</sup> The Firm failed to make changes to, or improve, its policies and procedures to

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<sup>23</sup> See QC § 30.11 (“An individual inspecting his or her own compliance with a quality control system may be inherently less effective than having such compliance inspected by another qualified individual. When one individual inspects his or her own compliance, the firm may have a higher risk that noncompliance with policies and procedures will not be detected.”).

<sup>24</sup> QC § 20.20.

<sup>25</sup> See QC § 30.03, .05.

address the failures of its procedures to identify these deficiencies, such as engaging a qualified individual from outside the Firm to perform internal inspection procedures.<sup>26</sup>

20. Appropriate documentation to demonstrate compliance with a firm's quality control policies and procedures should be prepared by the firm.<sup>27</sup> However, the Internal Inspection reports prepared by the Firm were, for the most part, created in response to requests from PCAOB staff, and prepared after the completion dates of those Internal Inspections. As such, the Firm failed to prepare appropriate documentation to demonstrate its compliance with the monitoring element of its quality control policies and procedures during the period from 2015 through 2018.

21. Other than the deficient Internal Inspections described above, the Firm did not perform other effective monitoring procedures to obtain reasonable assurance that its system of quality control was effective. For example, from 2016 through 2018, the Firm failed to perform pre-issuance reviews, in contravention of its written policy.

22. In addition, the Firm's EQR procedures failed to identify and communicate circumstances necessitating changes to or the need to improve compliance with the Firm's policies and procedures.<sup>28</sup> In fact, the individuals performing the Firm's EQRs failed to comply with professional standards and regulatory requirements in their performance.

23. As a result, the Firm violated PCAOB rules and quality control standards by failing to have monitoring procedures, taken as a whole, that enabled the Firm to obtain reasonable assurance that its system of quality control was effective, such that the policies and procedures for each of the elements of its system of quality control were suitably designed and being effectively applied, including engagement performance.

#### IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), RBSM is hereby censured.

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<sup>26</sup> See QC § 30.11.

<sup>27</sup> QC § 20.25.

<sup>28</sup> QC § 30.03.



- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$50,000 is imposed upon RBSM. All funds collected by the PCAOB as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. RBSM shall pay the civil money penalty within ten (10) days of the issuance of this Order by (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies RBSM as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.
- C. Pursuant to Sections 105(c)(4)(C) and (G) of the Act and PCAOB Rules 5300(a)(3), (8), and (9), the Board orders that:
1. Independent Consultant.
    - a. RBSM shall retain and pay for an independent consultant not unacceptable to the PCAOB staff who has experience with, and is knowledgeable concerning, PCAOB quality control standards ("Independent Consultant"). Within sixty days after the entry of this Order, RBSM shall submit to the PCAOB staff a proposal setting forth the identity, qualifications, and proposed terms of retention of the Independent Consultant. RBSM may not retain as the Independent Consultant any individual or entity that has provided legal, auditing, or other services to, or has any affiliation with, RBSM during the prior year.
    - b. To ensure the independence of the Independent Consultant, RBSM: (i) shall not have the authority to terminate the Independent Consultant or substitute another independent consultant for the initial Independent Consultant, without the prior written approval of the PCAOB staff; and (ii) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.
    - c. RBSM will enter into an agreement with the Independent Consultant that provides that, for the period of the engagement and for a period of three

years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing, or other professional relationship with RBSM or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. The agreement also will provide that the Independent Consultant will require that any firm with which the Independent Consultant is affiliated or of which the Independent Consultant is a member, and any person engaged to assist the Independent Consultant in performance of the Independent Consultant's duties under this Order, shall not, without prior written consent of the PCAOB staff, enter into any employment, consultant, attorney-client, auditing, or other professional relationship with RBSM or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity as such, for the period of the engagement and for a period of three years after the engagement.

- d. RBSM shall cooperate fully with the Independent Consultant and shall provide reasonable access to its personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's review, evaluation, and reports described in Paragraphs IV.C.2 and IV.C.3 below.
  - e. If RBSM, despite its best, good faith efforts, is unable to identify an Independent Consultant candidate that meets all of the above-listed criteria, RBSM may seek approval from the PCAOB staff of alternative candidates or alternative terms that RBSM believes to be otherwise suitable.
2. Areas Independent Consultant Is To Review. Within the periods specified below, the Independent Consultant will review and evaluate the following:
- a. RBSM's quality control policies and procedures as they relate to "Engagement Performance," as that term is described in QC Section 20.17;
  - b. RBSM's quality control policies and procedures as they relate to "Monitoring," as that term is described in QC Section 20.20 and as further discussed in QC Section 30;
  - c. RBSM's quality control policies, procedures, and staff training as they relate to the performance of an "Engagement Quality Review" as that term is used in AS 1220, *Engagement Quality Review*, applicable to audits and reviews conducted pursuant to PCAOB standards; and

- d. Whether RBSM is devoting appropriate resources to professional education and training of its personnel to ensure the adequate functioning of its system of quality control.
3. Independent Consultant Reports and Certifications.
    - a. Within five months of the Independent Consultant being retained, RBSM shall require the Independent Consultant to issue a detailed written report (“Report”) to RBSM: (i) summarizing the Independent Consultant’s review and evaluation of the areas identified in Paragraph IV.C.2 above, and (ii) making recommendations, where appropriate, reasonably designed to ensure that RBSM maintains a system of quality control sufficient to give the Firm reasonable assurance that its engagement teams perform issuer audits in compliance with applicable PCAOB auditing standards. RBSM shall require the Independent Consultant to provide a copy of the Report to the PCAOB staff when the Report is issued.
    - b. RBSM will adopt, as soon as practicable, all recommendations of the Independent Consultant in the Report; provided, however, that within thirty days of the issuance of the Report, RBSM may advise the Independent Consultant and the PCAOB staff in writing of any recommendation that it considers to be unnecessary, unduly burdensome, or impractical. RBSM need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the PCAOB staff an alternative proposal designed to achieve the same objective or purpose. RBSM and the Independent Consultant will engage in good faith negotiations in an effort to reach agreement on any recommendations objected to by RBSM.
    - c. In the event that the Independent Consultant and RBSM are unable to agree on an alternative proposal within forty-five days, RBSM either will abide by the determinations of the Independent Consultant or will seek approval from the PCAOB staff to engage, at RBSM’s expense, a qualified third party acceptable to the PCAOB staff to promptly resolve the issue(s).
    - d. Within seventy-five days of the issuance of the Report and the resolution of any issues that are the subject of disagreement between RBSM and the Independent Consultant, RBSM will certify to the PCAOB staff in writing that it has adopted and has implemented or will implement all recommendations of the Independent Consultant (“Certification”). RBSM will provide a copy of the Certification to the PCAOB staff.
    - e. Within six months of the issuance of the Report, RBSM shall require the Independent Consultant to test whether RBSM has implemented the

Independent Consultant's recommendations and to assess the effectiveness of those implemented recommendations. Within eighteen months of the issuance of the Report, RBSM shall require the Independent Consultant to test and to assess the effectiveness of the implemented recommendations and to issue a detailed written report ("Interim Review") summarizing the results of the Independent Consultant's test and assessment of RBSM's system of quality control. The Independent Consultant's test and assessment of RBSM's system of quality control should determine whether RBSM is maintaining a system of quality control sufficient to give the Firm reasonable assurance that its engagement teams are performing issuer audits in compliance with applicable PCAOB auditing standards. RBSM shall require the Independent Consultant to provide a copy of the Interim Review to the PCAOB staff when the Interim Review is issued.

- f. RBSM shall require the Independent Consultant to issue a detailed written final report no later than three years from the date of the Independent Consultant being retained summarizing the results of the Independent Consultant's test and assessment of RBSM's system of quality control during the entire period ("Final Report") and to provide a copy of the Final Report to the PCAOB staff. At this time, if the Independent Consultant determines that the undertakings discussed herein have been completed to the satisfaction of the Independent Consultant, RBSM shall require the Independent Consultant to certify in writing that the undertakings have been so completed ("Independent Consultant Certification") and to provide a copy of this certification to the PCAOB staff.
- g. The Report, Interim Review, Final Report, Certification, and Independent Consultant Certification shall be submitted by the Firm to the Director of the Division of Enforcement and Investigations.
- h. For good cause shown, the PCAOB staff may extend any of the procedural dates relating to these undertakings.

- i. RBSM understands that the failure to satisfy these undertakings may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

August 9, 2021