
2020 Inspection Prager Metis CPAs, LLC

(Headquartered in New York, New York)

May 13, 2022

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002



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2020 INSPECTION

In the 2020 inspection of Prager Metis CPAs, LLC, 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 2019. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2020 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 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 2020 INSPECTION

The following information provides an overview of our 2020 inspection, which was our first inspection of this firm. 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

	2020
Firm data	
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	40
Total engagement partners on issuer audit work ¹	5
Audits reviewed	
Total audits reviewed ²	4
Audits in which the firm was the principal auditor	4
Audits with Part I.A deficiencies	4

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 issue 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 internal control over financial reporting ("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.

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) during the twelve-month period preceding the outset of the inspection.

² The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

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 2020 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.

2020	
Audit area	Audits reviewed
Revenue and related accounts	4
Cash and cash equivalents	2
Inventory	1
Long-lived assets	1
Goodwill and intangible assets	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 on the issuer's financial statements and/or ICFR.

Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

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

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

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue:**

The issuer recognized certain revenue from product sales to customers. For certain customers, the firm did not evaluate if it was probable that the issuer would collect substantially all of the consideration to which it believes it is entitled in order to recognize revenue in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. Further, the firm did not evaluate whether the timing of customer payments indicated the existence of implicit payment terms that would affect the recognition of revenue in conformity with FASB ASC Topic 606. (AS 2810.30)

With respect to **Accounts Receivable**:

The firm selected for confirmation a customer's accounts receivable balance and received an electronic response to its confirmation request. The firm did not consider performing procedures to address the risk associated with electronic responses. (AS 2310.29)

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

The issuer engaged an external specialist to determine the fair value of a reporting unit and recorded impairment losses related to intangible assets and goodwill based on that fair value.

The firm did not evaluate revenue projections developed by the issuer and used by the external specialist to determine the fair value of the reporting unit. Further, the firm did not evaluate contradictory evidence related to these projections. (AS 1210.12; AS 2810.03)

The firm did not identify, and appropriately address, the issuer's omission of certain disclosures required by FASB ASC Topic 350, *Intangibles – Goodwill and Other*, and an inaccurate disclosure. (AS 2810.30 and .31)

Issuer B

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Inventory**.

Description of the deficiencies identified

The firm did not evaluate whether the issuer consistently applied its basis for stating inventories in conformity with FASB ASC Topic 330, *Inventory*. (AS 2810.30)

The firm did not identify, and appropriately address, a departure from GAAP related to the issuer's omission of a disclosure required by FASB ASC Topic 330. (AS 2810.30 and .31)

The issuer's year-end inventory included work-in-progress and finished goods. The firm did not obtain an understanding of and test the method the issuer used to allocate inventory costs to work-in-progress and finished goods. (AS 2301.08) In addition, the firm did not test the accuracy and completeness of issuer information the firm used to test inventory costs. (AS 1105.10)

The firm did not perform sufficient procedures to test the issuer's impairment analysis of inventory, because it limited its procedures to obtaining the issuer's impairment analysis and concluding the result of the analysis was consistent with historical margins. (AS 2501.07)

Issuer C

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**:

The issuer recognizes revenues from product sales. The firm did not test whether the issuer had evaluated if the issuer and customers had approved the contracts and were committed to perform their respective obligations in conformity with FASB ASC Topic 606. (AS 2810.30) In addition, the firm did not evaluate whether the issuer satisfied its performance obligations. (AS 2810.30)

With respect to **Long-Lived Assets**:

The issuer performed a qualitative assessment of certain long-lived assets for impairment. The firm did not sufficiently evaluate whether the issuer considered certain relevant events or changes in circumstances in conformity with FASB ASC Topic 360, *Property, Plant, and Equipment*, including certain of the issuer's disclosures in the financial statements that indicated that the carrying value of the long-lived assets may not have been recoverable. (AS 2810.03 and .30)

Audits with a Single Deficiency

Issuer D – Consumer Staples

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Cash and Cash Equivalents**.

Description of the deficiency identified

The issuer reported cash and cash equivalents at year end that included cash held by a law firm in an escrow account. The firm did not perform any procedures to determine if cash held by the law firm was restricted when evaluating the presentation and disclosure of the escrowed cash in conformity with FASB ASC Topic 210, *Balance Sheet*. (AS 2810.30 and .31)

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

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

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 four audits reviewed, the firm did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In one audit, the firm's audit report was not addressed to the shareholders. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- In one of four audits reviewed and in 10 other audits, the firm did not file one or more of its reports on Form AP by the relevant deadline. In one of four audits reviewed and in two other audits, 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 two of four audits reviewed, the firm did not provide the audit committee the required independence communications. In these instances, the firm was non-compliant with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

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.



September 30, 2021
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Re: Response to Part I of the Draft Report on the 2020 Inspection of Prager Metis CPAs, LLC (PUBLIC)

Dear Mr. Botic:

Prager Metis CPAs, LLC is pleased to provide this response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2020 inspection of Prager Metis CPAs, LLC (the "Draft Report"). We remain committed in making audit quality our top priority. The PCAOB's inspection process assists us in improving our audit performance and underlying quality control systems, in service of investors and the public interest. We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

We are evaluating each of the matters described in Part I of the Draft Report and are committed to taking appropriate actions in accordance with the PCAOB standards and our policies, including all necessary steps to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Very truly yours,

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC



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