
2020 Inspection Fruci & Associates II, PLLC

(Headquartered in Spokane, Washington)

May 26, 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

PCAOB RELEASE NO. 104-2022-143



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2020 INSPECTION

In the 2020 inspection of Fruci & Associates II, PLLC, 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 AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2020 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

	2020	2018
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	41	49
Total engagement partners on issuer audit work¹	4	3
Audits reviewed		
Total audits reviewed²	4	6
Audits in which the firm was the principal auditor	4	6
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	3	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 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) 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.

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.

Our 2020 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct misstatements.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2020 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.

2020		2018	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	3	Revenue and related accounts	5
Equity and equity-related transactions	1	Equity and equity-related transactions	2
Long-lived assets	1	Derivatives	2
Inventory	1	Inventory	1
Business combinations	1	Debt	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.

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 – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to a **Business Combination** and **Warrants**.

Description of the deficiencies identified

With respect to a **Business Combination**:

The issuer acquired a business during the year. The firm did not perform procedures, beyond inquiry of management, to evaluate whether the issuer identified and properly recorded all assets acquired, including patent applications, trade names, trademarks, and service marks held by the acquired entity, as identifiable intangible assets in accordance with FASB ASC Topic 805, *Business Combinations*. (AS 2301.08)

With respect to **Warrants**:

The issuer issued stock purchase warrants with a strike price denominated in its functional currency at the time of issuance. The issuer determined that the warrants met the scope exception of FASB ASC Topic 815, *Derivatives and Hedging*, and recorded the fair value of the warrants as additional paid-in capital. The issuer subsequently changed its functional currency, which resulted in the warrants no longer meeting the scope exception. The issuer, however, did not revise its accounting for the warrants. The firm did not identify, and appropriately address, this GAAP departure. (AS 2810.30 and .31)

Unrelated to our review, the issuer reevaluated its accounting for warrants and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements.

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 performed inventory observations at two business units subsequent to year end and performed roll-back procedures for the period from the date of the inventory observations to year end. For one of the business units, the firm did not perform procedures, beyond reviewing a schedule of inventory movement, to test transactions between the date of the inventory observation to year end. (AS 2510.12) In addition, the firm did not perform sufficient procedures to test the completeness of inventory at either business unit, such as comparing quantities observed to the physical inventory summary. (AS 2301.08)

Audits with a Single Deficiency

Issuer C – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to the **Allowance for Doubtful Accounts**.

Description of the deficiency identified

The firm's approach for substantively testing the allowance for doubtful accounts was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of the allowance because it limited its procedures to (1) inquiry of management, (2) reviewing the issuer's accounts receivable aging report, and (3) comparing the allowance balance to the issuer's general ledger. (AS 2501.09, .10, and .11)

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

In the 2020 inspection, we did not identify any deficiencies related to other instances of non-compliance with PCAOB standards or rules.

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.



A Professional Limited Liability Company

802 N Washington St
Spokane, WA 99201

April 25, 2022

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

Re: Response to Part I of Draft Report on 2020 Inspection of Fruci & Associates II, PLLC

Dear Mr. Botic:

We appreciate the opportunity to provide our response to Part I of the Public Company Accounting Oversight Board's (the "PCAOB" or "Board") Draft Report on the 2020 Inspection of Fruci & Associates II, PLLC (the "Draft Report").

We are fully supportive of the inspection process, a fundamental component of the PCAOB's mission, and believe the Board's comments and observations enhance the ability to achieve our commitment to the highest standards of audit quality. We continually monitor our internal processes, procedures, and practices to identify improvements and we understand the value derived from the inspection process in order to protect the interests of investors and the broader capital markets in which the public participates and on which they rely.

We have evaluated the matters described in *Part I – Inspection Observations* of the Draft Report and have taken actions where appropriate in accordance with both PCAOB standards and our policies. Our evaluation included those steps that we considered necessary to comply with 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*. Our evaluation also included, where necessary, performing additional audit procedures and/or supplementing our audit documentation to more clearly and accurately describe the conclusions reached resulting from those procedures. None of the matters identified by the PCAOB or the results of procedures subsequently performed impacted our previously-issued reports on the financial statements.

We believe that, as with any audit process, judgments are necessary to the inspection process and professionals can reach different conclusions about the adequacy of audit evidence in a particular circumstance. In those instances where such differences exist related to the inspection observations detailed in the Draft Report, they generally related to the significance of the observation in relation to the audit evidence taken as a whole rather than the specific nature of the observation. We have taken each of the Board's observations into account in formulating our plan to continuously improve audit quality.

We appreciate the professionalism demonstrated by the inspection team and believe the comments, observations, and dialogue resulting from the inspection process assists us in improving our audit work and underlying control systems. We look forward to continually working together with the PCAOB in the most effective manner toward our shared goal of enhanced audit quality.

Very truly yours,

A handwritten signature in green ink that reads "Fruci & Associates II, PLLC".

Fruci & Associates II, PLLC

PCAOB Response Part I
April 25, 2022
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