
2021 Inspection RBSM LLP

(Headquartered in McLean, Virginia)

October 20, 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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2021 INSPECTION

In the 2021 inspection of RBSM 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 five audits of issuers with fiscal years ending in 2020. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2021 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 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 2021 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2021 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

	2021	2019
Firm data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	49	66
Total engagement partners on issuer audit work¹	6	6
Audits reviewed		
Total audits reviewed²	5	7
Audits in which the firm was the principal auditor	5	7
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	1
Audits with Part I.A deficiencies	4	6

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.

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 audit report 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.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2021 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.

2021		2019	
Audit area	Audits reviewed	Audit area	Audits reviewed
Revenue and related accounts	4	Revenue and related accounts	6
Business combinations	2	Long-lived assets	4
Accruals and other liabilities	2	Goodwill and intangible assets	3
Inventory	1	Cash and cash equivalents	2
Long-lived assets	1	Equity and equity-related 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 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 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

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired multiple businesses. For one business combination, the firm did not perform any substantive procedures to test the fair value of the assets acquired and liabilities assumed. (AS 2502.15)

For another business combination, the issuer used an external specialist to estimate the fair value of certain of the acquired assets. For certain assets, the fair values were determined using forecasted cash flows. The following deficiencies were identified:

- As part of its assessment of the reasonableness of the cash-flow forecast for a certain asset, the firm obtained evidence that appeared to contradict an assumption used by the specialist with

respect to asset quantities. The firm did not perform procedures, beyond inquiry of management, to evaluate this contradictory evidence. (AS 2502.26, .28, .31, and .36)

- For certain assets, the firm did not perform procedures, beyond inquiry of management, to evaluate the reasonableness of certain significant assumptions underlying the cash-flow forecasts. (AS 2502.26 and .28)
- The firm did not perform any procedures to test the completeness of certain liabilities assumed. (AS 2301.08)
- The firm did not perform any procedures to test the fair value of certain liabilities assumed. (AS 2502.15)
- The firm did not identify and appropriately address an inconsistency between the issuer's disclosure of goodwill and other liabilities associated with this acquisition and the issuer's supporting documentation. (AS 2810.30 and .31)

Issuer B

Type of audit and related areas affected

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

Description of the deficiencies identified

The issuer recognized certain revenue based on quantities and specified rates, generally in exchange for noncash consideration. Any noncash consideration received at contract inception was recorded as a contract liability. The following deficiencies were identified:

- The firm used data from the issuer's system in its procedures to test certain of this revenue. The firm did not test, or in the alternative, identify and test any controls over, the accuracy and completeness of this data. (AS 1105.10)
- For certain other of this revenue, the firm did not test the selling prices for individual services provided. (AS 2301.08)
- The firm did not evaluate whether the method used by the issuer to determine the fair value of noncash consideration received was in conformity with FASB ASC Topic 820, *Fair Value Measurement*. (AS 2501.10)

Issuer C – Information Technology

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 issuer reported a reserve for excess and obsolete inventory. The firm did not perform procedures to test this reserve beyond reading issuer-prepared memos, vouching certain historical sales amounts used in the determination of the reserve, and performing recalculations of certain amounts. (AS 2501.07)

The issuer held certain inventory at a public warehouse. The firm performed an inventory observation subsequent to year end. The firm did not test (1) whether the contents of counted pallets and boxes matched the items included in the issuer's year-end inventory; and (2) intervening transactions between the issuer's year end and the date of its inventory observation. (AS 2510.14)

Issuer D – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

The firm used certain price and quantity information from external sources in its substantive testing of revenue but did not perform any procedures to evaluate the relevance and reliability of such information. (AS 1105.04 and .06) In addition, the firm developed an independent expectation to test revenue but did not evaluate the relevance and reliability of data used to develop its expectation. (AS 1105.04 and .06; AS 2501.23)

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 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 area below was 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.

We identified the following deficiencies:

In three of three audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but did not include in those procedures one or more matters that were communicated to the issuer's 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.

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.



1360 Beverly Road
Suite 305
McLean, VA 22101
703.448.9200
703.448.3515/ Fax
www.rbsmlp.com

July 19, 2022

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

Re: Response to Part I of the Draft Report on the 2021 Inspection of RBSM LLP

Dear Mr. Botic:

We appreciate this opportunity to provide our response to Part I of the draft Report of the Public Company Accounting Oversight Board ("PCAOB") on the 2021 inspection of RBSM LLP. We support the PCAOB's inspection process and their goal of improving audit quality.

Since the completion of these audits, which were principally related to calendar year-end 2021 engagements, the Firm has implemented a number of significant actions focused on improving audit quality.

We have evaluated each of the matters described in Part I of the draft Report and have taken appropriate actions under both PCAOB standards and our policies, including steps we considered necessary 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.

We remain committed to improving our audit performance and our underlying quality control systems.

We look forward to continuing to work with the PCAOB on the most effective means of achieving this objective.

Sincerely,

RBSM LLP

New York | Washington, DC | California | Nevada | Kansas
China | India | Greece
Member of ANTEA International with offices worldwide

