

Report on
2013 Inspection of Enterprise CPAs, Ltd.
(Headquartered in Chicago, Illinois)

Issued by the
Public Company Accounting Oversight Board

February 27, 2014

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

2013 INSPECTION OF ENTERPRISE CPAS, LTD.

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Enterprise CPAs, Ltd. ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

^{1/} In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from April 22, 2013 to April 25, 2013. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Chicago, Illinois)
Ownership structure	Corporation
Number of partners	1
Number of professional staff ^{2/}	8
Number of issuer audit clients ^{3/}	5

^{2/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{3/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.

A. Review of Audit Engagement

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of one issuer. This review did not identify any audit performance issues that, in the inspection team's view, resulted in the Firm failing to obtain sufficient appropriate audit evidence to support its opinion on the issuer's financial statements.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

C. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and address any such weaknesses and deficiencies. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present

fairly the financial position, results of operations, or cash flows of the issuer in conformity with Generally Accepted Accounting Principles ("GAAP").^{4/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.^{5/} Depending upon the circumstances, compliance with these standards may require the firm to perform additional procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

END OF PART I

^{4/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC"), which has jurisdiction to determine proper accounting in issuers' financial statements.

^{5/} See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T).



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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
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PART II

DETAILED DISCUSSION OF INSPECTION RESULTS

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The inspection of the Firm included consideration of aspects of the Firm's system of quality control.^{6/} QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC 20"), provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of clients and engagements; (4) engagement performance; and (5) monitoring.

Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from identified deficiencies in audit performance. These deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect in a firm's quality control system.^{7/} Defects in a firm's quality control system may also be identified through inspection procedures that are specifically focused on aspects of the firm's system of quality control.

^{6/} This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

^{7/} Not every audit deficiency suggests a possible defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

Design of Quality Control System

Audit Documentation

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with the audit documentation and retention rules set forth in PCAOB Auditing Standards No. 3, *Audit Documentation* ("AS No. 3"), in that the Firm's policies and procedures do not address the requirement that a complete and final set of audit documentation be assembled for retention not more than 45 days after the report release date.

Audit Performance

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Required Communications

Audit Committee Communications

The Firm's system of quality control appears not to provide sufficient assurance that the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with applicable standards.^{8/} [Issuer A]

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Risk Assessment

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with the requirements of the PCAOB's risk assessment standards in performing the audit of an issuer's financial statements. Specifically, the Firm failed to establish a materiality level for the financial statements as a whole, as required by PCAOB Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit*, to assess the risks of material misstatement at the financial statement assertion level described in PCAOB Auditing Standard No. 15, *Audit*

^{8/} The applicable standard at the time of the audit was AU 380, *Communication With Audit Committees* ("AU 380"), which has since been superseded by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*.

Evidence, as required by AS No. 12; and to perform analytical procedures in risk assessment procedures, as required by AS No. 12, and in the overall review, as required by PCAOB Auditing Standard No. 14, *Evaluating Audit Results*. [Issuer A]

Monitoring and Addressing Identified Weaknesses

The Firm's system of quality control appears to lack a monitoring element sufficient to provide the Firm with reasonable assurance that the Firm's policies and procedures are suitably designed and effectively applied in accordance with QC 20. The Firm's monitoring appears to have been deficient with respect to at least three types of previously identified weaknesses. An inspection of the Firm conducted in 2010 identified to the Firm that the Firm had failed in certain of its audits to perform procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud in accordance with the provisions of AU 316, make and appropriately document the required auditor communications to the audit committee, or equivalent, in accordance with AU 380, and comply with the audit documentation and retention rules set forth in AS No. 3. An appropriate approach to monitoring would have resulted in the Firm avoiding these deficiencies in audits performed after they were brought to the Firm's attention, yet the same deficiencies were noted in this inspection.

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PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm did not provide a written response.