

OUR COMMITMENT TO AUDIT QUALITY  
AND PROFESSIONAL EXCELLENCE



## RSM US LLP AUDIT QUALITY REPORT

February 2022

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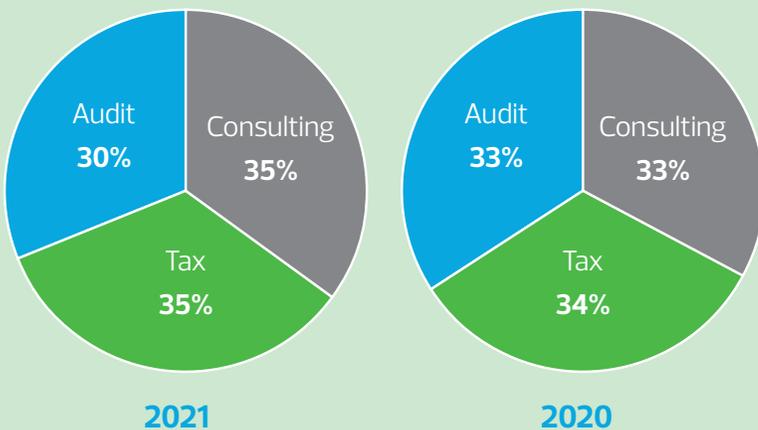


## INTRODUCTION

The quality of an audit that inspires investor confidence is built on the integrity, competence, objectivity and independence of our profession.

A number of important components impact the quality of an audit, and no single factor can, by itself, define audit quality. However, our system of quality control is intended to address key elements, such as leadership, adherence to relevant ethical requirements, acceptance and continuance of client engagements, personnel management, engagement performance, and monitoring.

### Fiscal year ended April 30 – Revenue by line of business



Each of these elements has one common and important thread—our people. Ultimately, audit quality is determined by an organization's people—by what they do and by what they don't do. Competent individuals who are committed to the principles of integrity, objectivity and independence are at the very core of audit quality.

Our firm, our partners and our employees are committed to these principles, and we align our firm's values and infrastructure accordingly. We strive for continuous improvement by constantly examining what we do and how we do it to determine ways to improve the quality and effectiveness of our work.

This report on audit quality is intended to provide a window into how RSM US LLP promotes and monitors audit quality.

## FIRM GOVERNANCE, LEADERSHIP AND CULTURE

RSM US LLP is the leading provider of accounting, tax and business consulting services to the middle market in the United States. Firm leadership sets a tone at the top that emphasizes quality as a critical component of our business strategy and stresses that all levels of professionals will be held accountable for quality. Firm leadership also models and communicates the importance of adherence to professional standards, including those related to ethics and independence. For all lines of business, it is expected that each engagement leader establishes a tone at the top for the engagement team that emphasizes high audit quality and excellent client service.

### Firm governance

Our firm's partnership agreement provides the foundation for its governance, including the requirement for a managing partner. Our board of directors serves as the governing body for our firm. The board focuses on the firm's strategic objectives and continuously guides the firm in the tradition of quality, integrity and client service excellence that have been the hallmark of the firm since its inception in 1926.

At a minimum, the RSM US LLP board consists of the managing partner and 11 additional partners/principals. The majority of board members must be partners. Currently eight of the 12 board members are partners.

#### Board of directors

|                     |  |
|---------------------|--|
| Jerry Martin        | Chair of the board, partner, national international tax services leader    |
| Joe Adams           | Managing partner and chief executive officer                               |
| Ty Beasley          | Principal, Central region consulting services leader                       |
| John Bird           | Partner, Chicago office leader, Great Lakes region tax leader              |
| Christina Churchill | Principal, management consulting   |
| Paul Guirovich      | Partner, national private equity tax leader, Northeast region tax leader   |
| Beth Johnson        | Principal, enterprise account leader—infrastructure/cloud managed services |
| Sudhir Kondisetty   | Principal, risk advisory services  |
| Sara Lord           | Partner, chief auditor   |
| Brandon Rucker      | Partner, audit practice leader—Southeast region                            |
| Tim Tiefenthaler    | Partner, Northwest market leader   |
| Darcy Wilson-Jones  | Partner, national leader—media and entertainment industry sector           |

Board members are elected by the firm's partners and principals and serve four-year terms. A chair of the board is elected annually. The board of directors has overarching responsibility for decisions affecting our firm, including the following:

- Oversight of the partnership agreement
- Approval of partner promotion, evaluation, compensation, disciplinary actions and terminations
- Approval of the annual financial budget and annual financial statements
- Approval of the annual business strategy
- Selecting the managing partner and chairman of the board
- Oversight of the firm's independence and quality control policies and procedures



#### Risk Oversight Committee

A key committee of the RSM US LLP Board of Directors is the Risk Oversight Committee, which assists the board of directors in fulfilling its risk management responsibilities and provides oversight to the National Office of Risk Management. The Risk Oversight Committee establishes guidelines setting forth the consequences for professional personnel who violate the firm's policies and procedures. Among other duties, this committee approves disciplinary actions recommended by the firm's Quality Control Inquiry Committees and the National Office of Risk Management.



## Leadership

Our firm currently is led by Joe Adams, managing partner and chief executive officer, and the following team of national leaders:

| National leaders  |   |
|-------------------|---|
| Bill Gorman       | Chief operating officer                             |
| Doug Opheim       | Chief financial officer                             |
| Bruce Jorth       | Chief risk officer                                  |
| Jeff Johannesen   | Chief strategy and innovation officer               |
| Joel Shamon       | National audit leader                               |
| Ernest Nedder     | National tax leader                                 |
| Brian Becker      | National consulting leader                          |
| Donald Lipari     | National industry leader                            |
| Tracey Walker     | National leader of culture, diversity and inclusion |
| Katie Lamkin      | Chief human resources leader                        |
| Andy Bosman       | National marketing and sales leader                 |
| Troy Cardinal     | Chief information officer                           |
| Sara Webber Laczó | Corporate communications leader                     |
| Sara Lord         | Chief auditor                                       |
| Joseph Cascio     | Accounting policy leader                            |
| Adam Hallemeyer   | Audit policy leader                                 |
| Scott Wilson      | Audit innovation leader                             |
| Rick Condon       | Professional practice leader                        |
| Jamie Klenieski   | Audit quality and risk leader                       |
| Claire Blanton    | Independence, compliance and ethics leader          |

Effective August 31, 2022, Brian Becker will succeed Joe Adams as managing partner and chief executive officer.

The following regional market leaders are responsible for all aspects of our business in their region and report to the chief operating officer:

| Regional leaders |                    |
|------------------|--------------------|
| Christi Mack     | Southeast market   |
| Tom Ferreira     | Northeast market   |
| Donna Sciarappa  | Great Lakes market |
| Kevin Prien      | Central market     |
| Sam Mascareno    | West market        |

#### Leadership responsibilities for quality control within the firm

The operational responsibility for our audit quality control system is assigned to our National Office of Risk Management and National Professional Standards Group, whose personnel have sufficient and appropriate experience and knowledge to identify and understand quality control issues and to develop appropriate policies and procedures, as well as the necessary authority to implement those policies and procedures. The leaders of our National Office of Risk Management and National Professional Standards Group report to our managing partner.



“Our leadership team sets clear expectations for high-quality performance on the part of all of our professionals. It is the responsibility of every person in our firm to meet those expectations.”

–Bruce Jorth, chief risk officer

Our National Office of Risk Management is under the leadership of our chief risk officer and is responsible for risk management on a firm wide basis, so it monitors quality and risk for our audit, tax and consulting practices. As to the audit practice, the National Office of Risk Management oversees the firm's quality control system, inspection and peer review processes, and independence and regulatory compliance functions.

Our National Professional Standards Group is led by our national audit leader. This group provides support to our professionals in the areas of auditing, accounting, financial reporting, and SEC and specialized industry matters by developing and updating the firm's general audit and industry-specific policies, methodologies, and related guidance and tools. Our Professional Practice Office assists our engagement leaders by consulting on engagement-specific accounting and auditing matters.

# 1:10

Ratio of National Professional Standards Group/Professional Practice Office partners to audit partners

– Fiscal year ended April 30, 2021



#### Leadership in professional organizations

RSM US LLP requires all eligible professionals who are certified public accountants (CPAs) to be members of the American Institute of Certified Public Accountants (AICPA). Members of our national office serve on various AICPA boards and committees, including the AICPA National Peer Review Committee, Professional Ethics Executive Committee, Governmental Audit Quality Center Executive Committee and Employee Benefit Plan Audit Quality Center Executive Committee. Our professionals throughout the country also participate in numerous AICPA task forces, and we currently have representation on seven AICPA expert panels. Our firm is a founding member of the Center for Audit Quality, and we actively participate in its various committees and task forces, including the Governing Board, Advisory Council, Professional Practice Executive Committee and SEC Regulations Committee. This participation provides immediate, first-hand knowledge of proposed and final standards and other developments affecting auditing and financial reporting and related practice issues.

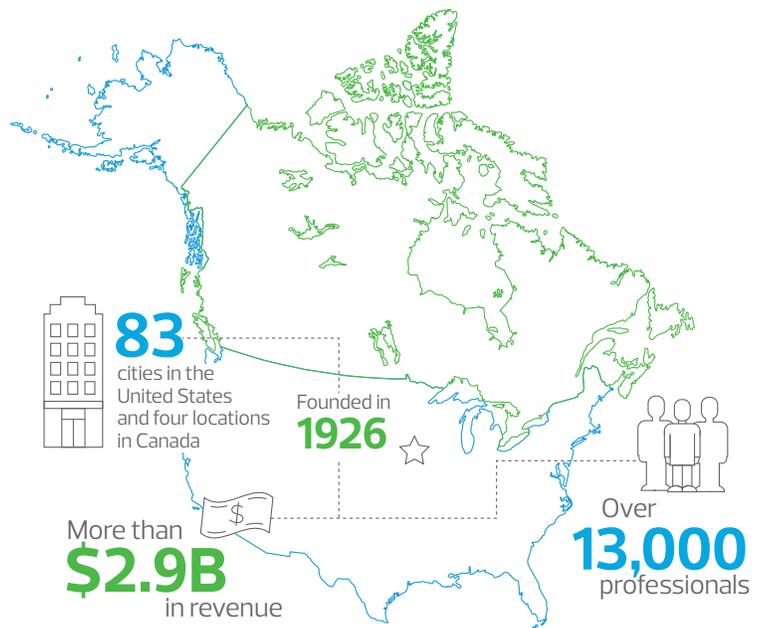


## Culture

Founded by Ira B. McGladrey in 1926, our firm has demanded excellence for more than 95 years.

We continually work to protect our reputation and deliver service in a way that is aligned with what our clients and the marketplace have come to expect from our firm. Grounded in our firm's core values of respect, integrity, teamwork, excellence and stewardship, our Code of Conduct is tied to our rich history and serves as a guide for our actions.

Our culture and core values influence many behaviors, such as professional skepticism and professional judgment, which are critical to audit quality. Our monograph, *Using Professional Judgment in Auditing*, describes the professional judgment framework we expect our auditors to use in identifying risks of material misstatement, planning audit procedures to respond to identified risks, and reaching conclusions based on the audit evidence. We train our auditors on the use of this framework and ask that they make the concepts in this document a reality by integrating them into the professional judgments they make on a daily basis. We are committed to continuing to invest in a culture of exercising sound professional judgment and exercising the objectivity and professional skepticism required by our professional standards.



Every RSM professional brings unique insights for objective problem solving, coaching, consultation and improvement. We believe diversity and inclusion promotes well-balanced teams and provides a more meaningful overall experience for our employees. We approach our commitment to a diverse workplace in several ways, including through dedicated leadership, thoughtful recruitment, meaningful training, and extensive investment in employee network groups and diverse professional organizations. Diversity results in a variety of viewpoints.

One of our initiatives to promote the expression of viewpoints and ideas for continuous improvement is the establishment of our Audit Practice Advisory Council (APAC), which consists of approximately 100 auditors from throughout the firm who commit to a two-year rotational term. The goal of APAC is to tap into the deep wealth of knowledge our professionals possess to better shape the future direction of the audit practice. The council serves as a think tank for the practice, helping the leadership team to (a) better understand the impact of its initiatives on our audits and (b) develop innovative solutions to critical issues facing the practice.

## QUALITY, ETHICS AND INDEPENDENCE

### Quality

We are committed to continually improving our system of quality control and its key elements, including adherence to relevant ethical requirements regarding independence, integrity and objectivity; acceptance and continuance of client engagements; personnel management; engagement performance; and monitoring. In that regard, our firm has implemented a Quality Control Inquiry Committee (QCIC) in each of our lines of business—audit, tax and business consulting. The voting members for the audit QCIC include the firm's chief risk officer, national audit leader and professional practice leader. Advisory members to the committee, as appropriate, include partners in the National Office of Risk Management and National Professional Standards Group. The QCIC committees report to the Risk Oversight Committee of the firm's board of directors.

Audit engagements to be addressed by the QCIC are selected based on certain triggering events. Such events include: (a) engagements identified in Public Company Accounting Oversight Board (PCAOB) or internal inspections or in the peer review process for which additional audit procedures were required to support the firm's report or for which a material departure from the applicable financial reporting framework was identified, (b) regulatory investigations, and (c) other situations in which it has been determined that engagement teams did not appropriately exercise due care or professional skepticism. In addition, engagements and engagement leaders may be referred to the QCIC by leaders and national office groups within the firm.

For engagements subject to review, first and foremost, the QCIC attempts to determine the root cause of the audit deficiencies. By understanding the root cause, we can develop the appropriate response, which may consist of revising policies, issuing guidance or communications, or developing training. The firm believes understanding the root cause is key to improving future performance.

On those occasions where the QCIC determines that the audit deficiency resulted from a lack of due care on the part of engagement supervisory personnel, the QCIC will issue a letter of reprimand or will require corrective action, such as attending specified training, subjecting the individual's work to additional oversight or the restriction of partner authorities. In the event the root cause is determined to be behavior for which disciplinary action is appropriate, the QCIC recommends to regional management, the Risk Oversight Committee of the board or other parties the action to be taken, including recommendation for negative adjustments to a partner's income allocation or termination. QCIC conclusions also are communicated to regional leaders for consideration in the partner evaluation/reward process.

QCIC reviews to date have resulted in various actions to improve audit quality, such as recommendations to the National Professional Standards Group and National Office of Risk Management regarding changes in policies and procedures, revisions to national training programs, and additional internal communications on specific audit issues. The firm believes the QCIC process has been very beneficial in determining the root cause of identified audit deficiencies and in reinforcing a tone at the top that elevates the quality of our audit practice.

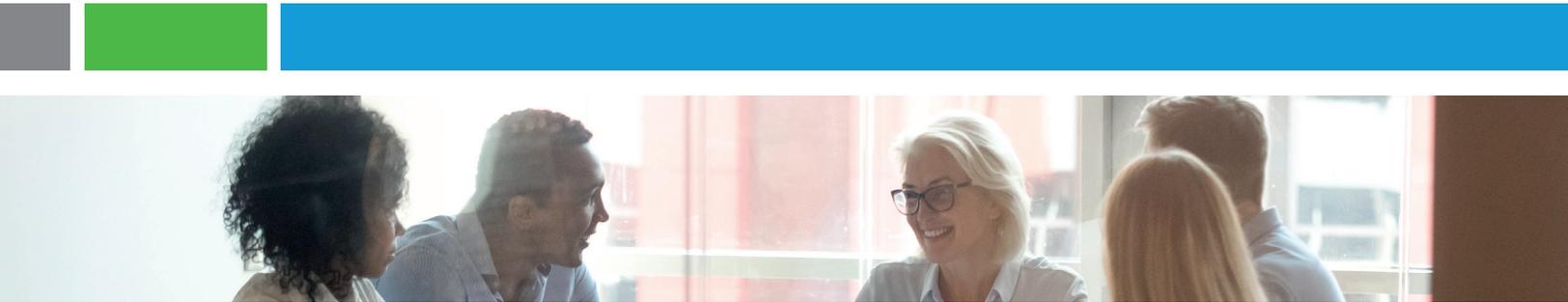
#### Number of restatements of financial statements for issuer audit clients

| Year of filing | Number of restatements |
|----------------|------------------------|
| 2020           | 1                      |
| 2019           | 2                      |
| 2018           | 1                      |



### Ethics

Ethical behavior influences the assessments performed and conclusions reached throughout an audit. Our Code of Conduct outlines the standards of ethical behavior for which we hold each other responsible. Our partners and other professionals are expected to practice to the highest standards of performance and behavior and to perform all services with the objectivity and professional skepticism required by our professional standards. Annually, all RSM partners/principals and employees are required to complete a Code of Conduct survey where they certify their understanding and awareness of the Code of Conduct and other key compliance policies. A portion of the survey allows the survey taker to identify issues inconsistent with our standards.



We establish policies and procedures designed to provide reasonable assurance that personnel comply with independence, integrity, objectivity and other relevant ethical requirements. These requirements include regulations, interpretations and rules of the AICPA, SEC, PCAOB, U.S. Government Accountability Office, U.S. Department of Labor (DOL), state CPA societies, state boards of accountancy and other applicable regulators. All partners and other professionals are expected to adhere to all applicable provisions of the AICPA Code of Professional Conduct, as well as applicable ethics requirements of the PCAOB and the state boards of accountancy. We maintain a confidential ethics hotline that allows any partner, employee, client or vendor who witnesses, suspects or knows about fraudulent, illegal or unethical behavior to report it.

## Independence

Our firm establishes clear and concise written guidance covering relationships and activities that impair independence, including, but not limited to, investments, loans, brokerage accounts, business relationships, employment relationships and fee arrangements. Our partners and other professionals are advised of our policies during the orientation process and are reminded of our policies annually as a part of monitoring compliance with such policies. Our firm emphasizes independence and other ethical considerations in selected training programs. All client service professionals at the manager level and above in all lines of business are required to participate in the firm's annual independence training.

Each individual client-service professional's security holdings in brokerage and retirement accounts are monitored through pRiSM, our personal independence tracking system that compares such holdings to our restricted entities listing. All professionals represent in writing their compliance with policies, including any exceptions, near the time of initial employment and on an annual basis thereafter. Exceptions are approved by the independence, compliance and ethics leader with certain matters subject to the approval of our board of directors. The firm audits the annual independence representations by reference to income tax, bank account and brokerage account records. The Risk Oversight Committee of the board of directors establishes guidelines setting forth the consequences for professional personnel who violate our independence policies.

In cases in which our firm provides both audit and nonaudit services, we evaluate our ability to perform nonaudit services and remain independent to provide audit services. Our proprietary Client Engagement Assessment of Risks (CLEAR) application, among other functions, assesses engagement risk for the firm's prospects and clients, including independence-related risks. The CLEAR process includes a documented analysis of a prospect's/client's ownership and affiliates and a search by a centralized dedicated team in the national office for any prohibited non-attest services that may have been provided to the prospect/client and its affiliates by our firm and members of the RSMI International (RSMI) network. In addition, the RSMI Global Relationship Tracker is used by RSMI member firms to support the performance of international conflict and independence checks to identify services and relationships with other RSMI member firms. Our professionals are educated about prohibited nonaudit services, and it is the audit engagement partner's responsibility to monitor the nonaudit services to be performed. Our professionals consult with members of our National Office of Independence, Compliance and Ethics when they have questions regarding a particular service.

On all public entity audit engagements, we seek audit committee preapproval to perform nonaudit services that are not otherwise prohibited by rules or regulations of the SEC or PCAOB. When seeking audit committee preapproval to perform permitted tax services or other nonaudit services, we describe, in writing, to the audit committee the scope of the proposed service, and we discuss with the audit committee the nonaudit service, the threats to independence that it creates and the steps we have taken to mitigate those threats. We only provide a permitted nonaudit service when the engagement partner and the audit committee agree that appropriate safeguards are in place.

During the planning stage of all public entity audit engagements, the engagement team must ensure that the audit engagement partner, engagement quality reviewer and all other audit partners have complied with the SEC and PCAOB partner rotation requirements. Our National Office of Risk Management oversees the monitoring of compliance with these requirements and the approval of the assignment of all audit engagement partners and engagement quality reviewers. During the planning stage of all nonpublic entity audit engagements, the engagement team must ensure that, when an engagement quality control review is required, the engagement quality control reviewer has complied with our firm's partner rotation policy. Our policy generally requires rotation after five years of serving as the engagement quality control reviewer for a nonissuer engagement.

## ACCEPTANCE AND CONTINUANCE OF CLIENTS AND ENGAGEMENTS

We establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide reasonable assurance that we will undertake or continue relationships and engagements only where we (a) have considered the integrity of the client and the risks associated with providing services in the circumstances, (b) are competent to perform the engagement and have the capabilities and resources to do so, (c) can comply with the applicable legal and ethical requirements, and (d) can reach an understanding with the client regarding the nature, scope and limitations of the services to be performed.

Just as our clients are selective in their choice of CPA firms, we are selective in accepting clients. Our client acceptance and continuation policies and procedures require the prospective engagement leader to carefully evaluate the prospective client prior to acceptance by:

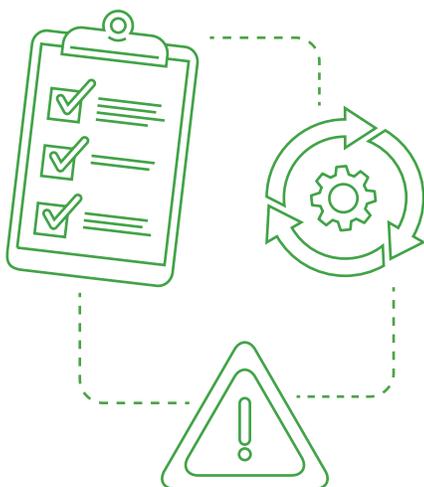
- Evaluating the integrity and competence of top management and majority owners
- Evaluating the prospective client's financial condition
- Reviewing our independence requirements to determine compliance with respect to the prospective client
- Ensuring that qualified professional staff and other functional and industry specialists are available
- Communicating directly with the predecessor auditor about relevant matters

Acceptance of all prospective clients must be approved by the regional audit leader or his or her designee. Acceptance of prospective clients that are public entities also requires the concurrence of our SEC services leader. Acceptance of certain prospective clients requires the concurrence of the respective industry leader.

The engagement leader must initiate a reevaluation of each assigned audit client prior to each year's engagement. Factors to be considered include, but are not limited to, a significant change in top management; a significant change in the nature, size or structure of the client's business; and certain prior-year audit findings. The engagement leader must obtain concurrence with client continuance from the regional audit leader or his or her designee. When certain engagement risk criteria are present, the approvals of a member of the Professional Practice Office, the audit quality and risk leader, the industry leader and the National Office of Risk Management also are required.

In addition, for audit clients that meet certain defined risk criteria, approval for acceptance or continuance of the client relationship must be obtained from our Client Acceptance and Reevaluation Committees. These committees also evaluate certain issues related to audit quality, such as:

- The qualifications and workload of the engagement partner and engagement quality reviewer, as well as the experience and qualifications of other key engagement personnel
- The identification of risks unique to the entity and the anticipated audit responses
- The requirements for the involvement of subject matter experts (SMEs) or consultants and internal and external specialists
- Potential independence matters, including the provision of nonaudit services by RSM US LLP, RSM International or other affiliates of the firm to the prospect or its affiliates



Our CLEAR application assists engagement teams in performing consistent and comprehensive evaluations of engagement risk, integrates our independence and business conflict checks process, helps assure that the engagement team has the requisite competency and experience, and provides our audit leadership with deeper insight into the risk profile of our client portfolio. In arriving at an engagement risk assessment, our CLEAR application considers several risk-rating factors, such as industry, financial condition, governance, management, control environment, size, complexity and international reach. In addition to providing for the approval of engagement acceptance or continuance and engagement staffing, this application identifies significant factors contributing to increased risk, the need for the involvement of SMEs, matters requiring consultation and other engagement risks. Early identification of issues and risks allows us to plan and perform more effective and efficient risk-based audits. This application also provides information that is used to more effectively evaluate our client portfolio at the partner, industry, office, region and firm levels.

## ENGAGEMENT TEAM MANAGEMENT

Engagement team management includes recruitment, retention, promotion, professional development and assignment of individuals to engagement teams. We establish policies and procedures designed to provide reasonable assurance that we have sufficient professional personnel with the capabilities, competence and commitment to ethical principles necessary to perform our engagements in accordance with professional standards and regulatory and legal requirements and to enable our firm to issue reports that are appropriate in the circumstances. Our personnel management begins with hiring the right people.

### Recruitment, retention and promotion

Our firm is comprised of

- 861 partner full-time equivalents (FTEs)
- 182 principal FTEs
- 11,649 employee equivalents
- 84 cities across the United States and five cities in Canada



#### Personnel-related information – fiscal year ended April 30, 2021 (in FTEs, except the number of CPAs)

|   | All personnel | Audit personnel |
|---|---------------|-----------------|
| Partners and principals                 | 1,043         | 432             |
| Directors, senior managers and managers | 3,333         | 948             |
| Professional staff                      | 6,156         | 2,302           |
| Administrative personnel                | 2,160         | 68              |
| CPAs                                    | 4,700         | 2,100           |

Our firm proactively seeks to employ individuals with an aptitude for the profession who possess high levels of intelligence, integrity and motivation. We establish minimum qualifications and guidelines for evaluating potential hires and ensuring that personnel who are hired possess the appropriate characteristics to enable them to perform competently. Campus recruiting activities are delegated to experienced professionals who have been provided with both formal and informal training in the selection process.

Our professionals participate in annual goal-setting and performance evaluation processes. When evaluating an individual's performance, many elements are considered, including quality, client service and expertise, people management and relationships, and productivity and business growth. The attainment of audit quality goals is incorporated in the evaluation and compensation of our audit professionals. All professionals also are assessed against our values of respect, integrity, teamwork, excellence and stewardship.

The results of the performance evaluations have a direct effect on compensation and promotion. Individuals being recommended for promotion to partner must go through an extensive nomination, interview and internal vetting process. Audit partner nominees must meet rigorous firm standards related to client service excellence, audit quality and expertise, people management, leadership of firm values, profitability and growth. Our national and regional leaders have extensive input in the promotion process. The final list of promotions is approved by the managing partner and the firm's board of directors.

Our firm's partner evaluation and compensation program is administered by the Income Allocation Committee. An important component of the partner evaluation is the assessment of quality. To assess the performance quality of audit partners, regional audit leaders use a quality assessment tool, which includes, among other information, a quality rating for all engagements that have been subjected to inspection. The board of directors approves the annual partner compensation plan and individual partner compensation, including special recognition for outstanding performance and any penalties imposed for material breaches of professional standards and firm policies.

## Professional development

Given the complexity of accounting and auditing standards, auditing requires technical training and maintenance of professional credentials.

Like most major U.S. accounting firms, our firm is structured as a limited liability partnership, based on the principle that the auditing professional must be in control of, and financially at risk for, the services provided. All partners in the firm are CPAs, and non-CPA leaders are principals in our firm. Our firm and its individually licensed CPAs are regulated by a number of state and federal requirements. All CPAs must be licensed in the state in which their office is located.

Capabilities and competence are developed through professional education, continuing professional development, work experience and mentoring by more experienced personnel.

### Investments in training

We always have focused on training all our professionals to make sure they are proactively prepared to meet the challenges of our profession. We take a holistic approach to training and develop a strategy for all professional levels within the firm. We have an annual professional development planning process that includes an assessment of participants' needs as compared to our existing curriculum to identify new program needs and necessary revisions to existing programs. This process includes input from national leaders, as well as focus groups and auditors who are practicing in the field, which results in more current and relevant training that is adapted for changing professional standards and responsive to inspection findings. The professional development policies, curriculum (required and elective) and training schedule are determined by the National Professional Standards Group and National Office of Risk Management in consultation with the Audit Learning Governance Council, and they are communicated to our professionals through our online catalog.

All client service professionals (both CPAs and non-CPAs) are required to obtain at least 20 credits of qualifying continuing professional education every year and at least 120 credits over a rolling three-year period. All professionals who devote at least 25% of their time to, or have partner/manager level responsibilities for the overall supervision or review for, one or more audit, review or other attest engagements (excluding compilations) are required to obtain at least 40% (eight credits in any one year and 48 credits every three years) of the required CPE in accounting and auditing subjects. All client service professionals performing professional services for clients obtain training on independence standards near the time of initial employment and periodically thereafter. Each professional, together with his or her career advisor, assumes the responsibility to see that his or her curriculum fits acceptably within the annual guidelines. Our regulatory compliance group monitors compliance with the guidelines.

Professional personnel participate in general and industry-specific continuing professional education and professional development activities that enable them to accomplish assigned responsibilities and satisfy applicable continuing professional education requirements. Course materials are provided electronically to our auditors, allowing them to easily apply what they learned in our practice environment. We test participants to measure the effectiveness of all required courses and all self-study courses.

The RSM Industry Eminence Program provides forward-looking industry insights to external client servers and clients. In this program, selected professionals at the manager level and above commit to a deeper understanding of the trends that affect specific industries. Participants are provided access to external training and resources, and they are expected to serve in three-year rotations as industry subject matter experts who communicate industry trends to others in their industry.



"We proactively equip our engagement teams with the knowledge, tools and resources needed to perform quality audits. In addition to fulfilling licensure requirements, our on-the-job training and continuing professional education courses foster individual learning that challenges our auditors to demonstrate their understanding of the content as they progress."

–Joel Shamon, national audit leader

Self development is encouraged as an important element of professional development. In connection therewith, our firm has acquired, on an electronic subscription basis, standards promulgated by the Financial Accounting Standards Board, Governmental Accounting Standards Board, AICPA, U.S. Government Accountability Office, Office of Management and Budget and PCAOB. Our manuals are revised and updated on a periodic basis and made available to all audit personnel through electronic databases. Each audit professional receives our newsletter of professional developments twice monthly.

## Coaching and mentoring

Our firm recognizes that on-the-job development is a significant component of professional development. Partners, senior directors, directors, senior managers and managers are encouraged to perform their reviews at the client's location, where they can coach and provide feedback to staff. This allows the knowledge, experience and values of these more experienced professionals to positively impact on-the-job training, while enhancing audit quality. Timely engagement evaluations provide our professional staff with instructive feedback on their engagement performance. Advanced professionals are evaluated, in part, on their effectiveness in training and developing others.

Our national office offers rotation programs for managers in both the National Professional Standards Group and the National Office of Risk Management. In this program, auditors are provided opportunities to develop or deepen technical and leadership skills and then are deployed back into the field after their rotation to build expertise in our audit practice. Responsibilities vary, but typically will include:

- Participating in external outreach activities (e.g., task forces, supporting national office members on standard-setting committees, drafting comment letters)
- Ownership of strategic initiatives (e.g., development of firm response to new accounting or audit standards)
- Development of content for manuals and tools
- Development and delivery of training
- Providing supervised formal and informal consultations with client service professionals

## Assignment of engagement teams

Our firm assigns an individual to a specific engagement after considering the professional competence and industry experience of the individual, together with the degree of knowledge, skills and abilities required in the circumstances. Our policies also require the assignment of internal information technology, tax, valuation and other specialists in certain circumstances. In addition, these policies provide guidance on the responsibilities to be discharged by various members of the engagement team.

Our firm has established qualification and performance expectations for the various levels of responsibility within the firm. The National Office of Risk Management, in consultation with our Professional Practice Office, approves a list of audit professionals who have authorizations within our quality control system. This list identifies individuals by industry and engagement risk rating who are authorized to serve as engagement leaders and managers, engagement quality reviewers, industry specialists, independent report reviewers, SEC compliance reviewers and subject matter experts.

| Leverage ratio of audit team member hours            |          |          |          |
|--|----------|----------|----------|
| Staff level  | 2021     | 2020     | 2019     |
| Partner to senior directors/senior managers/managers | 1 to 3.5 | 1 to 3.5 | 1 to 3.4 |
| Senior directors/senior managers/managers to staff   | 1 to 2.8 | 1 to 2.8 | 1 to 2.9 |
| Partner to staff                                     | 1 to 9.7 | 1 to 9.7 | 1 to 9.6 |

Annually, risk profile review meetings are held with members of the National Office of Risk Management and each regional audit leader, their local audit leaders and members of the Professional Practice Office. The meeting objectives include, among other matters, a review of the partner, senior manager and senior director workload, cross-review relationships and authorizations—all of which affect the efficacy of the partner's supervision of audit engagements. The outcomes of these meetings result in changes to authorizations or restrictions, based on the collective assessment of all information presented and discussed at these meetings. The data considered when reviewing authorizations includes:

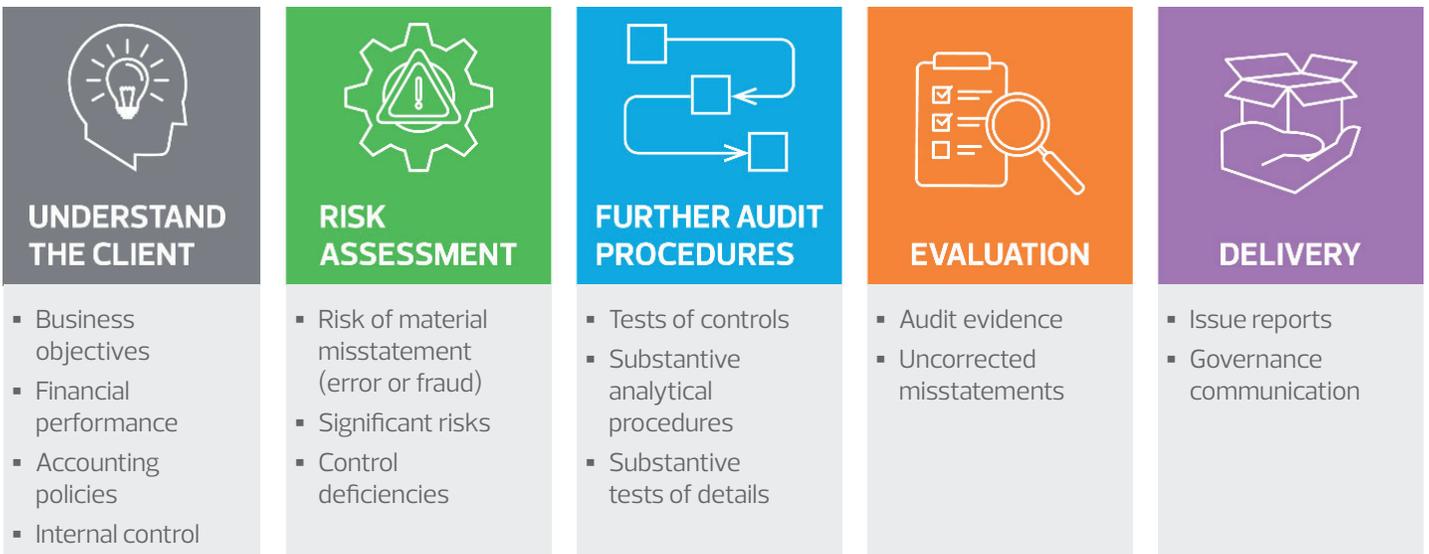
- Internal and regulatory inspection findings for engagements on which the partner served
- The engagements served within a particular industry, including the relative risk profile
- The number of hours worked within a particular industry
- Additional qualitative performance factors

# AUDIT ENGAGEMENT PERFORMANCE

Audit engagement performance encompasses planning and performing the audit, supervision and review, and communicating audit results.

## Planning and performing the audit

Our audit approach is carefully designed to comply with professional standards, providing a high level of audit quality and an appropriately low level of business risk. The audit approach is founded on a thorough understanding of the client's business, including its financial reporting and business control environments, and the industry in which the client operates. Our understanding of the client's business also focuses on obtaining an understanding of internal control over financial reporting that is sufficient to identify and assess the risks of material misstatement and developing an audit plan that is responsive to those risks.



We continually invest in audit innovation because audit quality is paramount to what we do, and we want to perform audits in the most productive manner possible. Technology automates certain audit procedures and the flow of audit documentation; this automation, in turn, enables our auditors to more intently focus on what really matters—the design and results of audit procedures related to the areas with the highest risk.



The engagement team is required to plan the audit work so that an effective audit is performed, designing procedures that are responsive to the fraud risks and other risks of material misstatement identified. Deployed across more than 100 countries worldwide, our optimal risk-based audit methodology, RSM Orb, is designed with a focus on the middle market and scales with client complexity to provide a robust, quality audit. This technology platform enables our auditors to focus on risks and design procedures tailored to each unique circumstance and environment. Thereby, an RSM audit delivers consistency, innovation, critical insights and confidence.

The nature, timing and extent of procedures performed are consistent with risk assessments made and the approach described in the planning documentation. The appropriateness of planned procedures is reconsidered when significant changes in risk factors are identified during the execution of tests of controls and substantive procedures.



Our firm expects its professionals to seek assistance from persons possessing specialized knowledge and expertise whenever they encounter situations in which they lack sufficient knowledge or experience, and in certain specific situations prescribed by our consultation policy. Our firm has designated subject matter experts and functional and industry specialists who provide professionals with access to knowledge and expertise in a variety of specialized, complex and (or) unusual areas. Certain situations prescribed by our policy require consultation with the National Professional Standards Group. The overwhelming majority of these consultations are the responsibility of our Professional Practice Office personnel, who are located throughout all regions and are dedicated to providing support to our professionals in the areas of auditing, accounting, financial reporting and SEC reporting. This structure allows for both improved client service and audit quality.

Our tools enable the preparation of audit documentation (a) in sufficient detail to provide a clear understanding of its purpose and source and the conclusions reached and (b) in a manner that provides a clear link to the significant findings and issues. In addition to audit documentation supporting the audit opinion, these tools facilitate an effective review. Our professionals and clients use RSM Collaborate to share documents efficiently.

### **Supervision and review, including engagement quality review**

Various levels of engagement review, including by the senior in-charge, engagement manager and engagement leader, evaluate whether the work was performed and documented, the objectives of the procedures were achieved, and the results of the work support the conclusions reached. An engagement quality review is required for audits of public companies and in a number of other circumstances. This review provides additional assurance with respect to the financial statements and our report thereon, the sufficiency of evidential matter obtained and the audit conclusions reached. An SEC compliance review is required when the financial statements and our report thereon will be included in a filing with the SEC or comparable federal or state agency. The purpose of this review is to provide reasonable assurance that the financial statements, disclosures and other aspects of the filing are in compliance with applicable regulations and that the disclosures in the related document are consistent with the financial statements.

### **Communicating audit results**

Effective and timely delivery of required communications that are accurate and complete promotes important dialogue between the client and the auditor that enhances audit quality. In audits of public companies, two-way communication between the independent auditor and the audit committee is essential. We communicate in writing and orally, as appropriate, with audit committees of public companies the following, among other, matters:

- All relationships between our firm or any affiliates of our firm and the audit client or persons in financial reporting oversight roles at the audit client that may reasonably be thought to bear on our independence with respect to the client
- An overview of the planned audit scope and timing of the audit, including information about the nature and extent of specialized skills or knowledge needed in the audit and the extent to which we plan to use the work of internal audit, company personnel and third parties working under the direction of management
- Significant risks we identified during planning and any significant changes to the planned audit strategy or identified risks
- Critical accounting policies, practices and accounting estimates
- Significant unusual transactions
- Deficiencies in internal control over financial reporting
- Uncorrected and corrected misstatements
- Disagreements with management and difficulties encountered in performing the audit

## Audit innovation

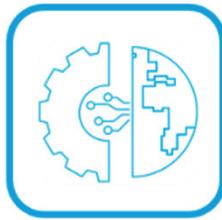
A focal point of our audit practice is the drive for constant innovation. Our innovation strategy begins with our audit innovation professionals, who leverage our audit methodology, together with our evolving ecosystem of technology relationships and advanced digital tools, to design a tailored audit based on professional standards and our understanding of our clients, their industry and their unique circumstances. We continually invest in audit innovation because audit quality is paramount to what we do, and we want to perform audits in the most productive and effective manner possible. This approach to innovation and technology is focused on three pillars— intelligent automation, data analytics and digital audit experience—that increase efficiency, minimize disruption and surface new information.



**Data analytics**



**Automation and AI**



**Digital audit experience**

### Digital audit experience

RSM creates an audit experience that is grounded in delivering *The Power of Being Understood*. This promise drives our focus on understanding our clients' industries, enterprise structures and challenges as we leverage an ever-evolving technology ecosystem that streamlines our client interactions and provides valuable insights. For example, we have enhanced ways for clients to stay connected to their engagement team and organize documents related to the audit. Through our collaboration platform, clients and engagement teams use our secure, cloud-based platform to organize and track document requests and status updates.

### Intelligent automation

We are constantly testing and evaluating new automation technology tools.

RSM has a strategic partnership with Automation Anywhere® that enables our auditors to leverage robotic process automation (RPA) to build bots to automate repetitive tasks. RSM's Automation Acceleration Center brings together subject matter experts and practitioners

across all industries and lines of business to develop proprietary automation solutions powered by Automation Anywhere.

In addition to RPA solutions, we incorporate optical character recognition (OCR), artificial intelligence (AI) and machine learning capabilities into our audit. A good example of our approach is combining RPA with OCR solutions, enabling teams to automate the matching of source documents to the underlying transactions and identify inconsistencies. By integrating these technologies, we can analyze, summarize and extract key information out of lengthy contracts such as lease, sales or debt agreements in a highly efficient way that enhances audit quality.

Technology automates certain audit procedures and the flow of audit documentation. This automation, in turn, enables our auditors to more intently focus on what really matters—the design and results of audit procedures related to the areas with the highest risk.

### Data analytics

We are continually developing advanced data analytics solutions to transform our audits. Alteryx®, a business intelligence and analytics platform, enables audit teams to perform and automate advanced analytic procedures. We use Alteryx to augment audit procedures, such as journal-entry testing, general-ledger data structuring and transformation, and account reconciliations. Use of these leading-edge solutions enables our teams to more efficiently analyze exponentially larger volumes of data and deliver a more insightful, data-driven audit. By performing more effective risk assessment procedures, we can then enhance our testing on the items with highest risk.

We also use IDEA® as our data mining and extraction tool to analyze big data and gain audit insights from that underlying data. IDEA improves audit efficiency and quality across functions, such as: (a) sampling; (b) field manipulation that allows fields to be appended for calculations and recomputations, facilitates account reconciliations and analyzes the population for major or unusual transactions; and (c) field statistics that display and print statistics about transactions and populations.

## MONITORING

Accountability is a critical element of any quality control system. We are dedicated to continuously improving our quality control system and our overall audit quality. We identify areas for improvements in a variety of ways—primarily by evaluating the root causes underlying the findings from our internal inspection, our external peer review, and PCAOB and DOL inspections. We also review published regulator reports summarizing performance issues identified in their inspections of other public accounting firms to evaluate whether improvements in our policies and procedures in these areas are warranted. We believe that our processes can always be improved as a result of lessons learned from internal and external monitoring.

The firm's monitoring is administered by our National Office of Risk Management, which is led by our chief risk officer, who reports to our managing partner.

### Internal monitoring

The National Office of Risk Management establishes internal monitoring policies and procedures designed to provide reasonable assurance that the policies and procedures relating to our system of quality control are relevant, adequate, operating effectively and complied within practice. In assuring that our quality control policies and procedures remain relevant and adequate, changes in professional standards or other regulatory requirements applicable to our practice are considered, as are other external factors, such as industry trends, economic developments and emerging audit quality issues.

The firm's internal inspection program is designed to evaluate compliance with our system of quality control for its audit practice through an annual review of the elements of quality control and inspection of the work performed for a sample of audit engagements. The internal inspection program has two distinct elements—inspection and functional monitoring.

Engagements are selected by the National Office of Risk Management for inspection using a risk-based approach. This approach focuses, in part, on engagements in higher risk zones as determined by our CLEAR application discussed previously, and partners primarily serving clients in those same zones, and it considers other audit risk factors as well. Engagements inspected during our 2021 inspection program totaled approximately 3% of the firm's total audit and accounting hours.

Quality results not only from the procedures performed on specific engagements, but also from certain general functions that have an impact on all engagements and are administered by local offices and national groups. The National Office of Risk Management assesses the quality of the design and operation of these functions by monitoring the risks and controls existing in the following areas:

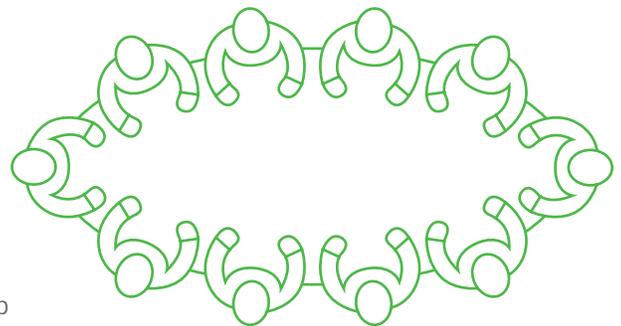
- Independence
- Client acceptance
- Engagement supervision and review
- Continuing professional education
- Evaluations of partners and other professionals
- Regulatory relations

During each of our internal inspections, two focus group sessions are held at each inspection location—one session with seniors/supervisors and one session with managers/senior managers. The purpose of these focus group sessions is to gain insights about (a) attitudes with respect to audit quality and tone at the top and (b) the adequacy of key firm and office processes.

A technology-based tool is used to gather, sort, store and use information obtained through our internal inspection program. Engagement-specific results, along with an engagement-quality rating, are reported to the engagement leader and the regional audit leader. Inspection findings are remediated, as required by professional standards. The results of all inspections are accumulated and reported to the Risk Oversight Committee of the firm's board of directors.

### International network

Our firm is one of the founding members of RSM International, which is the world's sixth-largest network of independent audit, tax and consulting firms. Member firms comprise more than 48,000 people from approximately 820 offices located in 120 countries. Members must be well-established practices of high local standing.





RSM International is a member of the Forum of Firms, an independent association of international networks of firms that perform transnational audits. The objective of the Forum is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide. Our optimal risk-based audit methodology, RSM Orb, provides common tools and templates globally.

RSM International maintains an ongoing program of annual globally coordinated inspections to assess compliance with applicable professional standards and alignment with RSM policies, procedures and methodologies. Each member firm must maintain a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements for all professional services provided by the firm, and that reports and any other deliverables issued or provided by the firm or its personnel are appropriate and suitable in the circumstances.

The RSMI Global Quality Committee (GQC) establishes policies and guidelines for both RSM member firm inspections and the RSM global inspection program. The GQC Independence Subcommittee provides oversight of independence matters, including the updating of RSMI Global Ethics and Independence Policies, monitoring of member firms' compliance with such policies, and recommendations for actions at the RSMI member-firm level to facilitate compliance with those policies. Further information regarding the structure and functions of the RSM International network is available in the [RSM Transparency Report](#).

RSM member firms in 28 countries are registered with the PCAOB and subject to its inspection and oversight protocols. This provides representation in most major countries needed to service our client base. For audit work required to be performed by a PCAOB-registered firm in countries where the member firm is not registered with the PCAOB, other arrangements are made in accordance with the PCAOB's rules and regulations. Currently, additional member firms are in the process of registering or considering registration with the PCAOB.

Certain member firms actively provide services to foreign components of our U.S. clients and have professionals who are familiar with U.S. generally accepted accounting principles (GAAP), relevant auditing standards, independence rules and financial reporting requirements. When RSM US LLP audit engagements require the assignment of professionals in RSM International member firms, our international audit leaders assist U.S. and foreign audit teams in coordinating the planning, staffing, supervision and review of the audits of the international components. Use of RSM International member firms is determined on an engagement-by-engagement basis and is supplemented by interoffice instructions and direct involvement by RSM US LLP professionals, including expatriates located in Latin America, Europe and Asia.

Having experienced RSM US LLP auditors in Latin America, Europe and Asia is beneficial to our clients in many ways. Among their many contributions to audit quality, expats provide:

- U.S. audit committees with a meaningful analysis of foreign accounting operations
- Reviews in the field where the foreign audit is conducted and participation in audit closing meetings between the foreign audit team and foreign client
- Assistance with conversions from International Financial Reporting Standards to U.S. GAAP

RSM US LLP and RSM International have developed enhanced training directed at member firms that function as a component auditor for audit engagements performed under U.S. generally accepted auditing standards (GAAS) or PCAOB auditing standards. The training is offered at various locations throughout the world and focuses on U.S. GAAP, U.S. GAAS/PCAOB auditing standards, and SEC/PCAOB independence and ethics rules.

## External monitoring

In accordance with the Sarbanes-Oxley Act of 2002, our firm is subject to inspection by the PCAOB on an annual basis. We support the PCAOB's inspection process and believe that its inspection comments and observations have helped us enhance the quality of our audit engagements.

The PCAOB report on each inspection includes a public portion and a nonpublic portion. The public portion includes an overview of the PCAOB's inspection procedures and the PCAOB's observations on certain of the engagements subjected to inspection. The nonpublic portion of each inspection report reflects the PCAOB's observations about the firm's audit performance as a whole and its system of quality control.

The most recent report issued by the PCAOB with respect to its inspections of our firm is the 2020 inspection report, which is dated December 16, 2021. The 2020 inspection included, among other matters, reviews of 15 audits of financial statements for years ending from May 1, 2019 through April 30, 2020. The PCAOB's comments within the nonpublic portion of its most recent report were generally consistent with the findings in the public portion, which is available on the PCAOB's website at [pcaobus.org](https://pcaobus.org). The PCAOB's report on its 2021 inspection of our firm has not yet been issued.

Our firm also is subject to the triennial peer review requirements of the AICPA. The peer review focuses on the firm's non-SEC audit practice and is conducted by another licensed CPA firm. Our system of quality control for the accounting and auditing practice applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended April 30, 2019, was subject to peer review by the firm of BKD, LLP. Under the peer review standards, firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Our firm received a peer review rating of *pass*. Likewise, the results of the DOL inspections of our firm's employee benefit plan audit practice, the most recent of which was conducted in December 2020, have been satisfactory.

We address any findings of our internal and external inspections in a timely manner. We carefully evaluate the root causes of the matters identified by our external inspections and initiate actions to remediate and address such matters. We prepare a written response to the nonpublic portion of the PCAOB report indicating our plans to improve audit quality as a result of their inspection findings.



## Our commitment to audit quality and professional excellence

Things have changed significantly in the financial reporting world over the past several years and will continue to change. Most notably, entities are affected by new accounting standards and technological advancements. The availability of more data allows for AI and sophisticated estimates. Evolving cyber risks pose real threats for data breaches and fraud. All of these changes, and many others, are addressed through evolving practices and vast amounts of resources expended by both financial statement preparers and their auditors.

Although today's financial reporting changes involve learning how to implement new rules and advanced technology, the same could be said about the financial reporting process for centuries. The process, however, always has been focused on the same objective, which is to provide useful information for decision-making, regardless of whether those decisions are being made by investors, management, buyers or suppliers.

No matter the number or types of changes that challenge the financial reporting world, the undergirding components of the financial reporting supply chain stay the same. Governing bodies, such as boards of directors and audit committees, must have effective corporate governance, including clear ethical mandates, and they must be competent to oversee the financial reporting. Financial statement preparers and management are bound to comply with the governance and likewise must be competent in staying up to date with all of the changing requirements. External auditors must stay focused on the provision of high-quality audits, which are built on the principles of integrity, competence, objectivity and independence of our profession.

At RSM, we remain committed to these principles. How we inform our clients and train our people about impending accounting standards evolves with the standards. We tailor our procedures to respond to benefits and risks of new technology. However, in the midst of these changes, our underlying commitment to audit quality and professional excellence stays the same.

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