

OUR COMMITMENT TO AUDIT QUALITY  
AND PROFESSIONAL EXCELLENCE



## RSM US LLP AUDIT QUALITY REPORT

September 2023

# REPORT CONTENTS

<b>Introduction</b>	<b>3</b>
<b>Approach to quality management</b>	<b>4</b>
<b>Firm governance, leadership and culture</b>	<b>4</b>
Firm governance	4
Risk Oversight Committee	4
Leadership	5
Leadership responsibilities for quality management within the firm	6
Leadership in professional organizations	6
Culture	7
<b>Ethics and independence</b>	<b>8</b>
Ethics	8
Independence	8
<b>Acceptance and continuance of clients and engagements</b>	<b>9</b>
<b>Engagement team management</b>	<b>10</b>
Recruitment, retention and promotion	10
Professional development	11
Investments in training	11
Coaching and mentoring	12
Assignment of engagement teams	12
<b>Audit engagement performance</b>	<b>13</b>
Planning and performing the audit	13
Supervision and review, including engagement quality review	14
Communicating audit results	14
<b>Tools and resources</b>	<b>15</b>
Technological resources	15
Audit innovation	15
Intellectual resources	15
<b>Information and communication</b>	<b>16</b>
<b>Monitoring and remediation</b>	<b>16</b>
Internal monitoring	16
International network	17
External monitoring	18
<b>Our commitment to audit quality and professional excellence</b>	<b>19</b>



## 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 can affect the quality of an audit, and no single factor by itself, defines audit quality. As such, our system of quality management identifies and addresses risks aligned to key elements, such as governance and leadership, adherence to relevant ethical requirements, acceptance and continuance of client engagements, engagement performance, monitoring, information and communication, and resources, including technological, intellectual and human resources.

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.

Joel Shamon, national assurance leader

Sara Lord, chief auditor



## APPROACH TO QUALITY MANAGEMENT

Our system of quality management is designed to meet the requirements of relevant quality management and control standards. Effective December 15, 2022, RSM US LLP adopted the International Auditing and Assurance Standards Board's (IAASB) International Standard on Quality Management 1 (ISQM 1), as well as the American Institute of Certified Public Accountants (AICPA) Statement on Quality Management Standards No. 1. We are also considering the changes the Public Company Accounting Oversight Board (PCAOB) recently proposed to its quality control standards.

The firm takes a proactive, risk-based approach in designing and operating our system of quality management to achieve our quality objectives. Our risk assessment process is dynamic—operating in a continual and iterative manner—to be responsive to known changes and anticipate future changes in the nature and circumstances of the firm and developments in auditing and regulatory areas. Quality risks and controls are identified across the functional areas of the firm and discussed in this report. Annually, the design, implementation and operating effectiveness of our system of quality management over our assurance practice is monitored and assessed by the firm's Audit Quality & Risk Management group and evaluated by the managing partner and chief executive officer.

## FIRM GOVERNANCE, LEADERSHIP AND CULTURE

RSM US LLP is the leading provider of assurance, 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 due professional care, high audit quality and excellent client service.

### Firm governance

Our firm's partnership agreement provides the foundation for its governance, including requiring our managing partner to be a certified public accountant (CPA). 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.

The RSM US LLP board consists, at a minimum, of the managing partner and 11 additional members of the partnership. The majority of board members must be partners (individuals who are CPAs).

Board of directors	
Paul Guirovich	Chair of the board, partner, tax
Brian Becker	Managing partner and chief executive officer
John Bird	Partner, tax
Jamie Burgess	Partner, consulting
Christina Churchill	Principal, consulting
Carlos Hernandez	Partner, assurance
Beth Johnson	Principal, consulting
Sudhir Kondisetty	Principal, consulting
Brandon Rucker	Partner, assurance
Matt Talcoff	Partner, tax
Tim Tiefenthaler	Partner, assurance
Darcy Wilson-Jones	Partner, assurance

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 firm's independence and quality management policies and procedures
- 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 evaluating and monitoring their performance

### 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 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 reviews enterprise and regulatory risk reporting results.



## Leadership

Our firm is currently led by Brian Becker, 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
Jiten Shah	Chief financial officer
John Brackett	Chief risk officer
Ernest Nedder	Chief strategy officer
Ty Beasley	Chief talent officer
Sara Webber Laczo	Chief communications officer
Andy Bosman	Chief marketing officer
Tracey Walker	Chief diversity officer
Don Lipari	Industry and private equity leader
Sergio de la Fe	Enterprise digital leader
Joel Shamon	National assurance leader
Patrick Vance	National consulting leader
Tony Urban	National tax leader
Donna Sciarappa	Talent sourcing and deployment leader
Sam Mascareno	Enterprise markets leader
Stacy Dow	Financial consulting leader
Tom Ferreira	Chief global officer
Milton Marcotte	Private equity consulting leader
Rick Miller	General counsel
Troy Cardinal	Chief information officer

Additional assurance leaders	
Claire Blanton	Enterprise independence leader
Chris Boettger	Enterprise risk operations leader
Jamie Klenieski	Audit quality and risk leader
Sara Lord	Chief auditor
Adam Hallemeyer	Deputy chief auditor
Joseph Cascio	Accounting policy leader
Tom Clark	Audit digital business integration leader
Troy Merkel	Audit digital strategy leader
Brooke Wangsness	Audit quality management leader
Brandon Rucker	National assurance operations leader
Mike Lundberg	National industry audit policy leader
Jon Burger	Professional practice leader

### Leadership responsibilities for quality management within the firm

The managing partner and chief executive officer has ultimate responsibility for our assurance system of quality management. The overall operational responsibility lies with the national assurance leader and our National Professional Standards Group, whose personnel have sufficient and appropriate experience and knowledge to identify and mitigate quality risks and develop and implement appropriate policies and procedures. The operational responsibility for compliance with independence requirements lies with the assurance practice; monitoring compliance and remediation of independence matters lies with the Office of Risk Management, whose personnel are skilled in identifying and understanding quality and noncompliance issues. The national assurance leader and chief risk officer report to our managing partner.



**“Quality is first in everything we do, woven throughout our culture and executed through customized risk management solutions for the business.”**

**– John Brackett, chief risk officer**

The Office of Risk Management is under the leadership of our chief risk officer. The group is responsible for risk management on an enterprise basis, so they monitor quality and risk enterprise-wide and for our assurance, tax and consulting practices. As to the assurance practice, the Office of Risk Management monitors and evaluates the firm's quality management system, inspection and peer review processes, and independence and regulatory compliance functions.

The National Professional Standards Group is led by our national assurance leader. This group supports our professionals in the areas of auditing, accounting, financial reporting, and U.S. Securities and Exchange Commission (SEC) and specialized industry matters by developing and updating the firm's general audit and industry-specific policies, methodologies, and related guidance, tools and training. Our Professional Practice Office within the National Professional Standards Group assists our engagement leaders by consulting on engagement-specific accounting and auditing matters. Members of the Professional Practice Office are located throughout the country and dedicated to providing support to our professionals in the areas of auditing, accounting, financial reporting and SEC reporting.

**1:12**

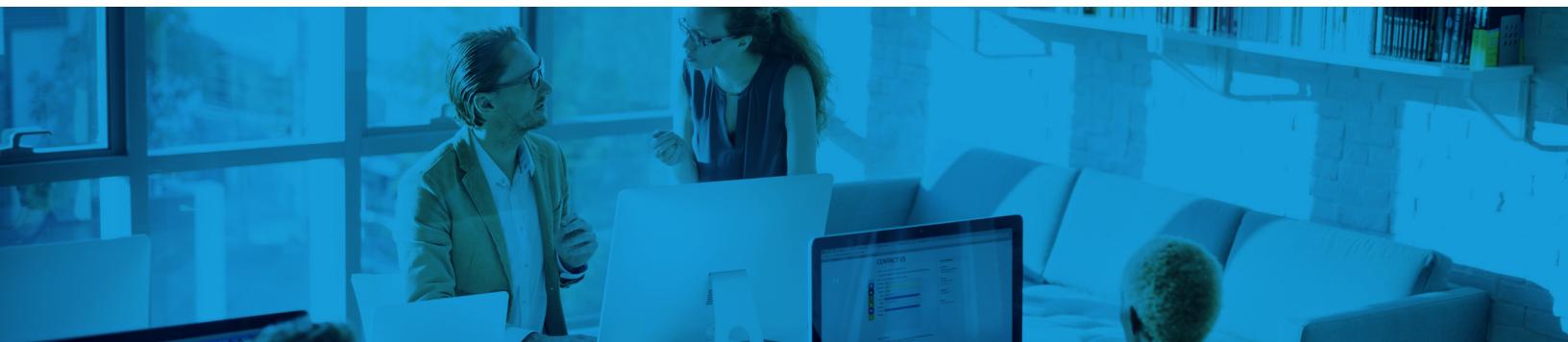
**Ratio of National Professional Standards  
Group partners to audit partners**

**– Fiscal year ended April 30, 2023**



### Leadership in professional organizations

RSM US LLP requires all eligible professionals who are CPAs to be members of the AICPA. Members of our national office serve on various AICPA boards and committees, including the AICPA National Peer Review Committee, Professional Ethics Executive Committee and Employee Benefit Plan Audit Quality Center Executive Committee. RSM's chief auditor serves as chair of the AICPA Auditing Standards Board and a member of the PCAOB Standards and Emerging Issues Advisory Group. Our professionals throughout the country also participate in numerous AICPA task forces, and we currently have representation on five 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

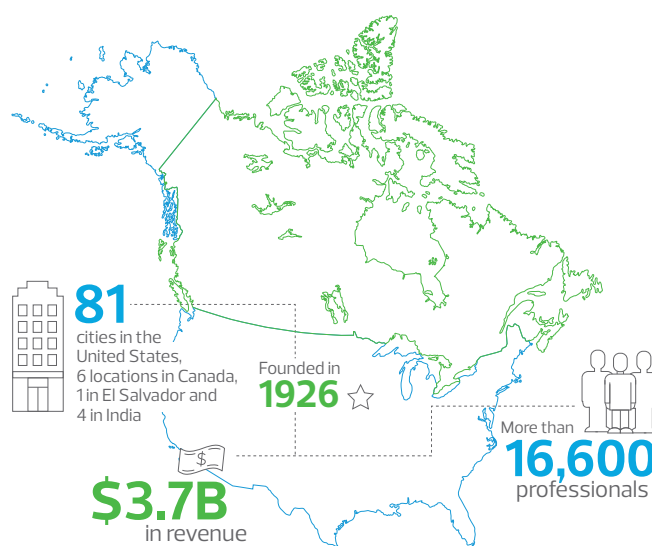
Founded by Ira B. McGladrey in 1926, our firm has demanded excellence for more than 95 years.

Our firm is one of the founding members of RSM International, the world's sixth-largest network of independent assurance, tax and consulting firms. Member firms comprise over 57,000 people from about 860 offices in 120 countries. Members must have well-established practices of high local standing.

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.

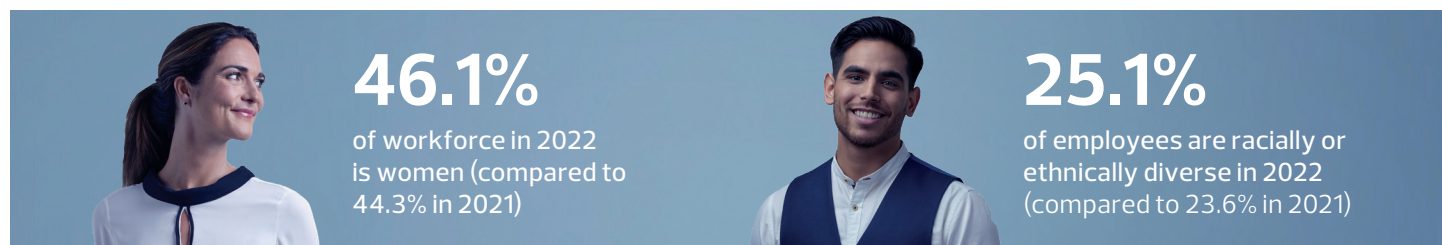


Grounded in our firm's core values of respect and uncompromising integrity, succeeding together, excellence in all we do, impactful innovation and stewardship, our Code of Conduct is tied to our rich history and serves as a guide for our actions.



Our culture and core values influence many behaviors, such as professional skepticism, professional judgment and due professional care, 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 incorporate this framework into our training, tools and methodology and ask that our auditors make the concepts in this document a reality by integrating them into the professional judgments they make daily. We are committed to continuing to invest in a culture of exercising sound professional judgment and exercising the objectivity, due professional care and professional skepticism required by professional standards.

Every RSM professional brings unique insights for objective problem-solving, coaching, consultation and improvement. We believe diversity and inclusion promote well-balanced, collaborative teams, resulting in a variety of viewpoints and providing 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.





## ETHICS AND INDEPENDENCE

### 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 accountable. Our partners and other professionals are expected to practice to the highest standards of performance and behavior and to perform all services with the integrity, objectivity and professional skepticism required by 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, due professional care 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. Additionally, RSM's confidential ethics hotline allows any partner, employee, client or vendor to report observations, suspicions or knowledge about fraudulent, illegal or unethical behavior.

### 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 in all lines of business are required to participate in the firm's annual independence training.

Each individual client service professional's investments and financial relationships are monitored through pRISM, our personal independence tracking system that compares such holdings to our restricted list. All professionals represent in writing their compliance with policies, including any exceptions, near the time of initial employment and on an annual basis thereafter. 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 nonattest services, we evaluate our ability to perform nonattest services and remain independent in providing audit services. Our proprietary Client Engagement Assessment of Risks (CLEAR) application, among other functions, assesses engagement risks 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 of RSM InTrust by the engagement team for any prohibited nonattest services that may have been provided to the prospect/client and its affiliates by our firm or members of the RSM International (RSMI) network.

RSM InTrust captures data related to each RSMI member firm's international and public interest entity clients, the affiliates of those clients and nonattest services performed for them. This system 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 or within each member firm. Our professionals are educated about prohibited nonattest services, and it is the audit engagement partner's responsibility to monitor all nonattest services performed across each client relationship. Our professionals consult with members of our National Office of Independence, Compliance and Ethics groups when they have questions regarding a particular service.



## 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 evaluate carefully the prospective client prior to acceptance by:

- Evaluating the integrity and competence of top management, those charged with governance, advisors and majority owners
- Evaluating the prospective client's organizational structure, ownership, business model, reputation and 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

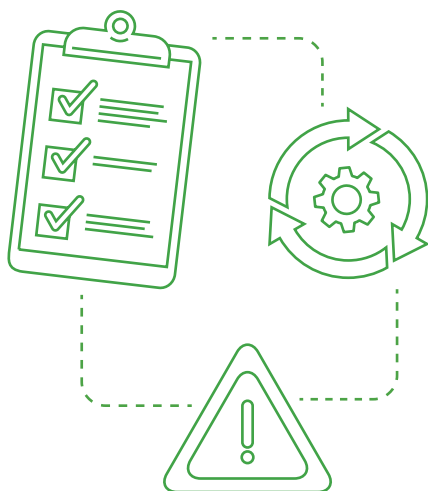
Acceptance of all prospective clients must be approved by an assurance leader or their designee. The acceptance of prospective clients that are public entities also requires the concurrence of our SEC services leader. Acceptance of certain prospective clients requires the concurrence of the respective member of the Professional Practice Office or national industry leader.

The engagement leader must initiate a reevaluation of each assigned assurance 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 assurance leader or their 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 national industry leader and the Office of Risk Management are also required.

In addition, for assurance clients that meet certain defined risk criteria, including when an entity is an issuer, 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 experience, qualifications and workload of the engagement partner and engagement quality reviewer, as well as the experience, qualifications and workload 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 or consultants and internal and external specialists
- Potential independence matters, including the provision of nonattest services by RSM US LLP 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 assurance 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 subject matter experts or specialists, 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 evaluate our client portfolio more effectively at the partner, industry, office and service line 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, adequate time 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

Personnel-related information— fiscal year ended April 30, 2023 (in FTEs, except the number of CPAs)	 ALL PERSONNEL	 ASSURANCE PERSONNEL
Partners and principals	1,071	404
Directors and managers*	3,766	871
Professional staff	7,917	2,402
CPAs	4,400	1,815

\*Includes managing directors, senior directors, senior managers and managers.

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 ensure that the personnel who are hired possess the appropriate characteristics to enable them to perform competently. Our recruiting activities are performed by 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, productivity and business growth. The attainment of audit quality goals is incorporated in the evaluation and compensation of our assurance professionals. All professionals are also assessed against our values of respect and uncompromising integrity, succeeding together, excellence in all we do, impactful innovation and stewardship.

The results of the performance evaluations have a direct effect on compensation and promotion. Individuals recommended for promotion to a partner must undergo an extensive nomination, interview and internal vetting process. Assurance partner nominees must meet rigorous firm standards related to client service excellence, audit quality and expertise, people management, the leadership of firm values, profitability and growth. Our national and people 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 are administered by the Income Allocation Committee. An important component of the partner evaluation is the assessment of quality. To assess the performance quality of assurance partners, assurance 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 forfeitures schedule for 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 assurance professional must be in control of, and financially at risk for, the services provided. All partners in the firm are CPAs, and non-CPA owners 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 have always focused on training all our professionals to ensure 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 auditors who are practicing in the field, which results in current and relevant training that is adapted for changing professional standards and responsive to inspection findings. The professional development policies, curriculum and training schedule are determined by the National Professional Standards Group and Office of Risk Management, and they are communicated to our professionals through our online catalog. The learning strategy is determined by the Assurance Learning Governance Council, a body comprised of assurance leaders from across the practice to set the strategy of assurance learning as it aligns with the present and future needs of the assurance line of business, firm and profession.

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 accounting and assurance professionals are required to obtain at least 40% (eight credits in any one year and 48 credits every three years) of the required continuing professional education in accounting and auditing subjects. All client service professionals performing professional services for clients are required to obtain training on independence standards near the time of initial employment and annually after that. Each professional, together with their career advisor, is responsible for seeing that their curriculum fits acceptably within the annual guidelines. Our regulatory compliance group monitors compliance with the requirements.

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 CPE requirements. We test participants to measure the effectiveness of all required and 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 are expected to serve in three-year rotations as industry subject matter experts.



**"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 assurance leader**

Self-development is encouraged as an important element of professional development. 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, updated periodically and made available to all assurance personnel through electronic databases. Each assurance professional receives our newsletter of professional development twice monthly.



### Coaching and mentoring

Our firm recognizes that on-the-job development is a significant component of professional development. Partners, managing directors, senior directors, senior managers and managers are encouraged to have direct interaction with the engagement team members, either in person or virtually, where they can perform their reviews, coach and provide feedback. This interaction allows the knowledge, experience and values of the more experienced professionals to positively affect 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 and senior managers in the National Professional Standards Group and the Office of Risk Management. This program provides auditors opportunities to develop or deepen technical and leadership skills. Then, they are deployed back into the field after their rotation to build extensive knowledge in our assurance 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)
- Owning strategic initiatives (e.g., development of firm response to new accounting or audit standards)
- Developing content for manuals and tools
- Developing and delivering 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 made substantial investments in India as part of a long-term strategy to ensure RSM continues to lead the middle market by leveraging global resources, supplemental capabilities and advanced digital tools to empower our people to deliver high-quality services, deliverables and added value to the clients we serve. Our India team includes experienced and credentialed professionals who provide support across all lines of business and service lines and adhere to our firm's quality and risk management protocols and procedures. Within the assurance line of business, our India team members are embedded as members of engagement teams performing procedures aligned with our policies and methodologies under the supervision and review of our engagement team members and leaders.

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

LEVERAGE RATIO OF ASSURANCE TEAM MEMBER HOURS (fiscal year ending)			
Staff level	2023	2022	2021
Partner to directors/managers*	1 to 3.2	1 to 3.3	1 to 3.5
Directors/managers* to staff	1 to 3.1	1 to 2.8	1 to 2.8
Partner to staff	1 to 10	1 to 9.4	1 to 9.7

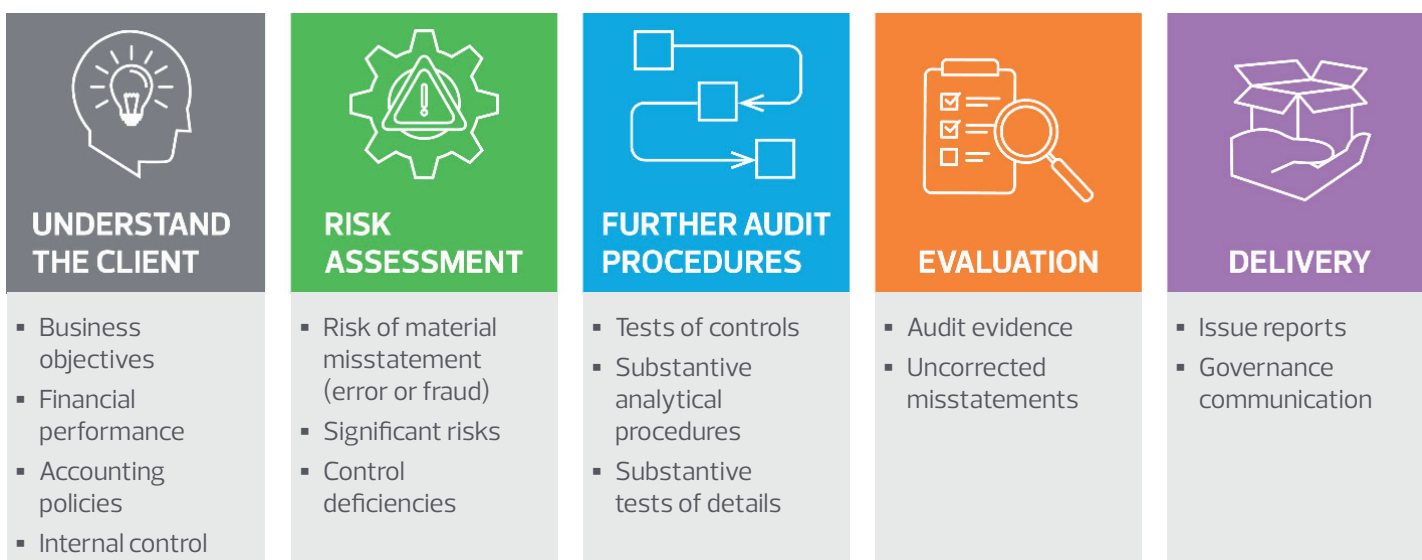
\*Includes managing directors, senior directors, senior managers and managers.

Annually, risk profile review meetings are held with members of the Office of Risk Management, assurance leaders, industry leaders and members of the Professional Practice Office. The meeting objectives include, among other matters, a review of the partner, managing director 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 the authorizations includes:

- Internal and regulatory inspection findings for engagements on which the partner, managing director or senior director 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 the planning and performing of the audit, supervision and review of the engagement, and communication of 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 the financial reporting and business control environments and the industry in which the client operates. Our knowledge of the client's business also focuses on understanding the 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 focus more intently on what 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 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 extensive experience 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. 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.

## 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 various 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
- Critical audit matters, when applicable
- Disagreements with management and difficulties encountered in performing the audit



## TOOLS AND RESOURCES



### Technological resources

The firm has obtained and developed various technological resources that support the firm's system of quality management and performance of quality engagements. Technological resources form part of the firm's information technology (IT) environment. The firm has identified risks and implemented necessary responses related to IT general and application controls relevant to the system of quality management.

### Audit innovation

A focal point of our assurance 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—digital audit experience, automation and data analytics—that increase efficiency, minimize disruption and surface new information.

### 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 ecosystem of technologies that streamline our client interactions and provide valuable insights. For example, we have enhanced ways for clients to stay connected to their engagement team and organize documents related to the audit. Clients and engagement teams use our secure, cloud-based platform to organize and track document requests and status updates dynamically.

### Automation

We are constantly testing and evaluating new automation technology tools.

We actively leverage robotic process automation (RPA) solutions, optical character recognition (OCR), artificial intelligence (AI) and machine learning capabilities into our audits. 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 from 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 focus more intently on what matters—the design and results of audit procedures related to the areas with the highest risk.

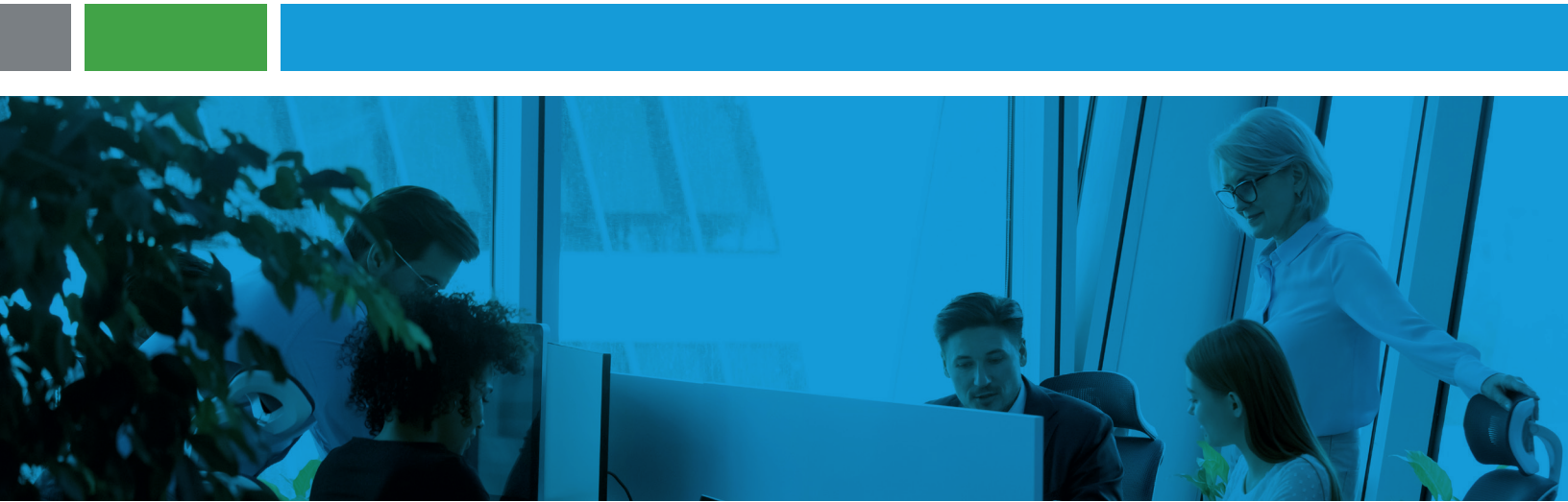
### Data analytics

We are continually developing advanced data analytics solutions to transform our audits. Our technology platform enables audit teams to perform and automate advanced analytic procedures. We use our platform to augment audit procedures, such as journal-entry testing, general-ledger data structuring and transformation, and account reconciliations. These leading-edge solutions enable our teams to analyze exponentially larger volumes of data more efficiently 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 the highest risk.

We also use a data mining and extraction application to analyze big data and gain audit insights from that underlying data. The application 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.

### Intellectual resources

The firm has obtained and developed various intellectual resources, including audit manuals, industry manuals, training materials, practice aids and RSM Orb resources that support the firm's system of quality management and performance of quality engagements. Our National Professional Standards Group is responsible for maintaining content, ensuring updates in professional standards are reflected timely. Internally, developed content is assigned an owner, who is qualified in their areas of expertise, to review the content for consistency with professional standards and ensure it is relevant and accurate. In addition to content reviews, various levels of testing are performed on technological resources prior to publishing and communicating content.



## INFORMATION AND COMMUNICATION

The firm's organizational structure and culture support information and communication as it relates to the system of quality management. A robust information and communication system and culture are essential to ensuring the exchange of information within the firm and with external parties on a timely basis. Communications from firm leadership, such as commitment to quality, ethics and technical matters, are disseminated through various channels, including a biweekly Audit & Accounting Insights newsletter and the firm's intranet site.

## MONITORING AND REMEDIATION

Accountability and monitoring are critical elements of any quality management system. We are dedicated to continuously improving our quality management system and overall audit quality through proactive monitoring, internal and external inspections and other systems of quality management monitoring. We identify areas for improvement in a variety of ways, including evaluating the root causes underlying the findings from our monitoring and examining positive outcomes the firm can support and apply more extensively. We also review published regulatory 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, and we continually evaluate and update our policies, methodologies, training and communications. The firm's monitoring is executed by Audit Quality and Risk Management (AQRM) and administered by our Office of Risk Management (ORM), which is led by our chief risk officer.

### Internal monitoring

AQRM establishes internal monitoring policies and procedures designed to provide reasonable assurance that the policies and procedures relating to our system of quality management are relevant, adequate and operating effectively. In assuring that our quality management 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 management for its assurance practice through:

- Inspection of the work performed for a sample of completed assurance engagements, including testing elements of quality management performed at the engagement level
- Preissuance focused review of a sample of issuer and nonissuer engagements.

Engagements are selected by AQRM for inspection using a risk-based approach. This approach focuses, in part, on engagements of higher risk as determined by our Client Engagement Assessment of Risks (CLEAR) application discussed previously and other audit risk factors. AQRM also ensures a reasonable cross-section of engagement types and industries are selected. Engagement leaders are selected for inspection at least once every three years. In some instances, engagement leaders may be selected more frequently to incorporate an element of unpredictability. Inspections are performed by competent and objective national offices and assurance professionals. Engagements inspected during our 2022 peer review and inspection program consisted of approximately 375 engagements, or 6.3% of the firm's total assurance 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 the firm. ORM and AQRM assess the quality of the design, implementation and operation of these functions by monitoring the risks and controls existing in the following areas:

- Independence and ethical requirements
- Client acceptance and continuance
- Governance and leadership
- Resources (including human, intellectual and technology)
- Information and communication
- Continuing professional education



**Focus group sessions are held during each inspection segment**—with seniors/supervisors and additional sessions 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 processes.



**An application is used to gather, sort, store and use information obtained through our internal inspection program.**

Engagement-specific results and an engagement-quality rating are reported to the engagement leader and the industry assurance 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.



**In connection with ISQM 1, the firm also performs operating effectiveness testing for controls in the system of quality management using proactive, ongoing and periodic monitoring that allows for iterative changes in response to the firm's quality objectives, quality risks, responses and controls.** Any exceptions to testing are evaluated to determine if a finding or deficiency exists. A timely and robust root cause analysis is performed on identified deficiencies and may also be performed on other exceptions to testing.



**The firm has invested in technology, including various data analytics tools, which are incorporated into the monitoring process, further allowing for timely, data-driven results.** Complementary to the monitoring plan, the firm has established a remediation plan to take appropriate actions to respond to identified findings and deficiencies such that deficiencies are remediated timely and responsive to the underlying root causes. Although the nature, timing and extent of remediation may vary, all remedial actions are developed in collaboration with the control operators, assurance leadership, the chief risk officer and others as deemed appropriate.

#### International network

RSM International (RSMI) maintains an ongoing program of annual globally coordinated inspections to assess compliance with applicable professional standards and alignment with RSMI policies, procedures and methodologies. Each member firm was required to adopt ISQM 1 and maintain a system of quality management 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 updating RSMI Global Ethics and Independence Policies, monitoring 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 Global Annual Review](#).

RSM member firms in 26 countries are registered with the PCAOB and subject to its inspection and oversight protocols. This association 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.



## External monitoring



Our firm is subject to external inspections annually by the PCAOB, triennial peer review requirements of the AICPA, periodic DOL inspections, as well as other regulatory inspections.

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 management.

The most recent report issued by the PCAOB with respect to its inspections of our firm is the 2021 inspection report, which is dated November 16, 2022. The 2021 inspection included, among other matters, reviews of 17 audits of issuers with fiscal years ending in 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 2022 and 2023 inspection of our firm has not yet been issued.

Our firm is also subject to the triennial peer review requirements of the AICPA. The peer review focuses on the firm's non-SEC assurance practice and is conducted by another licensed CPA firm. Our system of quality management for the accounting and assurance practice applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended April 30, 2022, was subject to peer review by the firm of FORVIS, LLP (formerly 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 2022, were satisfactory.

We address any deficiencies from 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 appropriately responsive to the root cause to remediate and address such matters, which may consist of revising policies, issuing guidance or communications, or developing training. 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.

Additionally, our firm has implemented a Quality Control Inquiry Committee (QCIC) that reports to the Risk Oversight Committee of the firm's board of directors. The QCIC assists in determining the root cause and corrective action for triggering negative quality events. The firm believes understanding the root cause and accountability is key to improving future performance.

# 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 applying due professional care in the provision of high-quality audits, which are built on the principles of integrity, competence, objectivity and independence in 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.

Brian Becker, managing partner and chief executive officer

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