2019 Inspection
L&L CPAS, PA

(Headquartered in Cornelius, North Carolina)

March 25, 2021

PCAOB

Public Company Accounting Oversight Board

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2021-086A

(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2021-086)

Table of Contents

2019 Inspection

During the Public Company Accounting Oversight Board ("PCAOB")'s 2019 inspection of L&L CPAS, PA, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review two audits of issuers with fiscal years ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2019 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

Overview of the 2019 Inspection and Historical Data by Inspection Year

The following information provides an overview of our inspection in 2019 of the firm's issuer audits as well as data from the previous inspection. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Reviewed

	2019	2016
Firm Data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	8	11
Total engagement partners on issuer audit work[1]	3	1
Audits Reviewed		
Total audits reviewed[2]	2	2
Audits in which the firm was the principal auditor	2	2
Integrated audits of financial statements and internal control over financial reporting ("ICFR")	0	0
Audits with Part I.A deficiencies	2	1

If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection may include a

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201) during the twelve-month period preceding the outset of the inspection.

[2] The population of issuer audits from which audits are selected for review may differ from the issuer audits at the outset of the inspection procedures due to variations such as new issuer audit clients for which the firm has not yet issued an opinion or issuer audit clients lost prior to the outset of the inspection.

review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2019 inspection and the previous inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019		2016	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	2	**Revenue and related accounts**	2
Inventory	1	**Inventory**	1
Expenses	1	**Derivatives**	1
Certain assets	1		

Part I: Inspection Observations

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies, if any, that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Sarbanes-Oxley Act ("the Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Part I.A: Audits with Unsupported Opinions

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

In its testing of revenue, the firm did not evaluate whether the issuer appropriately recognized revenue in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers.* (AS 2810.30) In addition, the firm did not identify, and appropriately address, a departure from GAAP related to the issuer's (i) disclosure that it recognized revenue under FASB ASC Topic 605, *Revenue Recognition,* when in fact it recognized revenue under FASB ASC Topic 606 and (ii) omission of certain disclosures related to FASB ASC Topic 606. (AS 2810.30 and .31)

With respect to **Certain Assets:**

The firm did not perform sufficient procedures to test the existence of an asset because its procedures were limited to inspecting supporting documentation dated approximately five months prior to the issuer's year end. (AS 2503.21)

For other certain assets, the firm did not evaluate if the assets were appropriately accounted for in conformity with GAAP and did not identify, and appropriately address, departures from GAAP related to the issuer's omission of certain required disclosures. (AS 2810.30 and .31) In addition, the firm did not evaluate the effects of a related party relationship on whether these assets were appropriately accounted for in conformity with GAAP. (AS 2810.30)

Issuer B

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not evaluate whether the cost of inventory was determined in accordance with the issuer's stated policy. (AS 2301.08)

The firm did not evaluate whether inventory was recorded at the lower of cost or market. (AS 2501.07)

The firm did not evaluate the assumptions used by the issuer to estimate the reserve for obsolescence. (AS 2501.07)

The firm did not perform sufficient inventory test count procedures, because it did not test (1) inventory transactions between the date of the count and year end and (2) the completeness of the issuer's inventory. (AS 2510.09 and .12)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the area below was not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include instances of non-compliance below.

We identified the following deficiency:

In one audit, the firm's initial audit report did not state that the notes were audited or express an opinion on the financial statements and notes, and was not addressed to the shareholders. In this instance, the firm was non-compliant with AS 3101*, The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. (A revised audit report, which was included in a subsequent issuer filing with the SEC, expressed an opinion on the financial statements and notes).

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Testing Revenue

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by the firm's personnel to test revenue will meet the requirements of AS 2810. (QC 20.03 and .17)

In one audit,[3] which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of revenue, including deficiencies related to (1) evaluating whether revenue was recorded in conformity with GAAP and (2) not identifying and appropriately addressing a departure from GAAP.

* * * *

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In one audit,[4] which is included in Part I.A and Part I.B, the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In this audit, the EQR partner did not identify a deficiency in an area of significant risk and the audit report.

---

[3] Issuer A

[4] Issuer A

Appendix A: Firm's Response to the Draft Inspection Report

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

L&L CPAs, PA

19720 Jetton Road, 3rd Floor
Cornelius, NC 28031
Tel: 704-897-8336
Fax: 704-919-5089

December 22, 2020

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

RE: **Public** response to Part I of the Draft Report on the 2019 Inspection of L&L CPAS, PA

Dear Mr. Botic,

We are pleased to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2019 inspection of L&L CPAS, PA dated December 7, 2020 (the "Draft Report").

We recognize and support the importance of the PCAOB Inspection process, and are commited to continually enhancing our quality control policies and procedures.

While we may have had, at times, what we considered to be reasonable differing views with the inspection team as to audit approach or materiality, as would be expected based on the judgmental nature of such matters, we cooperated with the inspection team to our fullest extent.

We acknowledge that the inspection process is designed to identify deficiencies, however the findings are not necessarily reflective of our practice in general, nor does it portray the overall high quality of our audit practice.

We have taken action, as appropriate, on each of the matters described in Part I.A and I.B of the Draft Report in a manner consistent with PCAOB auditing standards. In that regard, we have considered whether it is necessary to perform additional procedures in accordance with AS 2901, Consideration of Omitted Procedures After the Report Date, and AS 2905, Subsequent Discovery of Fasts Existing at the Date of the Auditor's Report and, where appropriate, we performed such procedures.

We appreciate the opportunity to provide this response and we look forward to working with the PCAOB staff in the future.

Very truly yours,

/s/ L&L CPAS, PA
L&L CPAS, PA

www.llcpas.net

19720 Jetton Road, 3rd Floor
Cornelius, NC 28031
Tel: 704-897-8336
Fax: 704-919-5089

December 22, 2020

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

RE: **Non-Public** response to Part II of the Draft Report on the 2019 Inspection of L&L CPAS, PA

Dear Mr. Botic,

We hereby respond to the **non-public** portions of the Public Company Accounting Oversight Board's (PCAOB) draft report on the 2019 inspection of L&L CPAS, PA dated December 7, 2020.

The following items are the issues and related responses:

REDACTED. Comments on Non-public Aspects of Report

Testing Revenue (Issuer A)

The report alleges that the Firm failed to (1) evaluate whether revenue was recorded in conformity with General Accepted Accounting Principles ("GAAP") and (2) identify and appropriately address a departure from GAAP.

Response:

We followed the guidance in PCA-AP-14: Audit Program for Income and Expenses to test the occurrence, valuation, and presentation and disclosure of revenues, and signed off on steps in the audit program for revenue when the audit procedures were completed. Specifically, we performed the following procedures to evaluate whether the Issuer recorded revenue in accordance with FASB ASC Topic 606:

1. Met with the Issuer several times during the audit and the Issuer walked through the revenue recognition process with us in person;

L&L CPAs, PA

19720 Jetton Road, 3rd Floor
Cornelius, NC 28031
Tel: 704-897-8336
Fax: 704-919-5089

2. Evaluated the revenue recognition policy memo provided by the Issuer to determine if the Issuer recorded revenue in accordance with FASB ASC Topic 606;
3. Verified different components in sales transactions, such as shipping the handling method, to determine that there was no separate performance obligation in sales transaction.

However, a copy of the revenue recognition policy memo was not properly documented in the audit binder. We will improve the documentation in the future.

We agreed that the disclosure of information required by FASB ASC Topic 606 was inadvertently omitted in initial Form 10-K and subsequent Form 10-K/A filings, even though it was corrected in Form 10-Q for the period ended June 30, 2019, which was filed on August 19, 2019.

We believe it is critical to note that the Issuer's revenue recognition did not material differ under ASC 605 versus ASC 606. Thus, although the documentation in the audit binder and in the Form 10-k, may have inadvertently cited ASC 605 in some cases, such a discrepancy was not material to a user and did not and could not result in any material misstatement.

Notwithstanding the above, subsequent to our inspection, we will add the description of procedures that the audit team preformed in the audit workpaper to enable an experienced auditor to understand the nature, timing, extent and results of the procedures performed, evidenced obtained and conclusion reached. We will add this topic in engagement quality review checklist and discuss this issue in our internal training. In addition, the team members will take the related CPE course related to revenue testing and documentation to strengthen the understanding and supervision on revenue testing and documentation of audit workpapers

REDACTED. Comments on Non-public Aspects of Report

19720 Jetton Road, 3rd Floor
Cornelius, NC 28031
Tel: 704-897-8336
Fax: 704-919-5089

REDACTED. Comments on Non-public Aspects of Report

Engagement Quality Review (Issuer A)

The report alleges that the Firm's system of quality control does not provide reasonable assurance that the review procedures performed by the Firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220.

Response:

As indicated by our detailed responses above, our work papers generally support the performance of appropriate audit procedures, and the staff's disagreements with our clients' good-faith accounting determinations do not establish any departures from GAAP. During the engagement quality review, we followed the guidance in PCA-CX-14.1 Supervision, Review, and Approval Form to make sure that we meet the requirements of AS 1220. We also updated our EQR Checklist periodically to address any weakness identified (please refer to Exhibit 1). As such, we strongly disagree with the conclusion that the EQR partner did not identify a deficiency in an area of significant risk and the audit report.

As stated in our response, we disagree that the engagements selected for review by the examination staff demonstrate any failure to comply with professional standards. Notwithstanding our continued belief that we have met all applicable professional standards, we have taken this report very seriously and implemented significant enhancements to our quality control system. The thorough and comprehensive enhancements to this system constitute a fulsome response to the deficiencies set forth in your report, dramatically decreasing the likelihood of future deficiency findings.

Very truly yours,

/s/ L&L CPAS, PA
L&L CPAS, PA