2019 Inspection KBL, LLP

(Headquartered in New York, New York)

June 25, 2021

PCAOB
Public Company Accounting Oversight Board

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2019 Inspection

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

We selected for review one audit of an issuer with a fiscal year ending in 2018. For the 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	2017
Firm Data		
Total issuer audit clients for which the firm was the principal auditor at the outset of the inspection procedures	1	6
Total engagement partners on issuer audit work[1]	2	3
Audits Reviewed		
Total audits reviewed[2]	1	2
Audits in which the firm was the principal auditor	1	2
Integrated audits of financial statements and internal control over financial reporting ("ICFR")	1	1
Audits with Part I.A deficiencies	1	2

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.

Our 2019 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements. The issuer also revised its report on ICFR, and the firm revised and reissued its report on ICFR to include an additional material weakness.

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		2017	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Equity and equity-related transactions	1	**Equity and equity-related transactions**	2
Derivatives	1	**Derivatives**	1
Revenue and related accounts	1	**Revenue and related accounts**	1
		Debt	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 and/or ICFR.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. 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 – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts**, and **Equity and Warrants**.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts**:

For certain subsidiaries, the firm did not (1) obtain a sufficient understanding of the likely sources of potential misstatements associated with revenue processes and (2) identify and test controls over revenue recognition. (AS 2201.34 and .39)

The issuer's main information technology ("IT") system processed revenue transactions and maintained revenue related data. A service organization provided data center hosting services related to the IT system. The firm did not identify and test any relevant complementary user controls described in the service auditor's report. (AS 2201.B22) The service organization used several sub-service organizations to host the issuer's IT system and the controls for the sub-service organizations were not addressed in the service auditor's report. The firm did not (1) obtain an understanding of how the use of sub-service organizations affected the issuer's revenue process; and (2) evaluate whether it was necessary to obtain an understanding of, or test, any relevant controls at the sub-service organizations. (AS 2201.B19 and .B21) The firm did not evaluate the effect of exceptions identified in the service auditor's report on the issuer's revenue process. (AS 2201.B25)

The firm identified a material weakness related to an employee having responsibilities for financial statement review controls and administrator access to the issuer's IT system discussed above. The firm selected for testing an automated control that restricts the recording of sales to authorized customers. The firm did not evaluate whether its test of one approach for this control was appropriate in light of the identified material weakness. (AS 2201.65)

The firm determined that a control over management's assessment of the effect on revenue recognition of FASB ASC Topic 606, *Revenue from Contracts with Customers*, was deficient. The firm concluded that this represented a significant deficiency after identifying and testing two compensating controls. The firm did not sufficiently evaluate the severity of the control deficiency because the firm did not evaluate whether, and if so how, either of the controls identified as compensating controls addressed the effect of ASC Topic 606 on revenue recognition. (AS 2201.68)

The firm selected for testing a control over the review of accounts receivable collectability and the allowance for doubtful accounts. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and 44)

The firm did not sufficiently evaluate the reasonableness of the allowance for doubtful accounts because its procedures were limited to testing the subsequent collection of certain accounts receivable, without obtaining an understanding of how the issuer developed the allowance and evaluating whether the allowance was reasonable. (AS 2501.09, .10, and .13) In addition, the firm did not test the accuracy of the accounts receivable aging report that was used in testing the subsequent collection of certain accounts receivable. (AS 1105.10)

With respect to **Equity and Warrants**:

The issuer completed private placement agreements that provided for the issuance and sale of common stock and warrants.

The firm did not identify and assess the risks of material misstatement for relevant assertions related to the private placement transactions and perform procedures to address those risks. (AS 2110.59)

The firm did not (1) obtain an understanding of the likely sources of potential misstatements associated with the contractual terms and conditions of the private placement agreements; and (2) identify and test any controls over the evaluation of the presentation and disclosure of these agreements. (AS 2201.34 and .39)

The firm did not evaluate whether the warrants issued in connection with the private placement transactions included embedded derivatives that should have been presented and disclosed in accordance with FASB ASC Topic 815, *Derivatives and Hedging*. (AS 2810.30 and .31)

Unrelated and prior to our review, the issuer reevaluated its accounting treatment for the warrants issued in connection with the private placement transactions and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements and the firm revised and reissued its report on the financial statements. The issuer also reevaluated its controls over financial reporting and concluded that a material weakness existed that had not been previously identified. The issuer subsequently reflected this material weakness in a revision to its report on ICFR, and the firm revised and reissued its report to include an additional material weakness.

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. 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 the audit reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

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.

A. Testing Controls

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 controls will meet the requirements of AS 2201. (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 controls.

B. Testing Equity and Related Accounts

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 equity and equity-related transactions will meet the requirements of AS 2110 and AS 2810. (QC 20.03 and .17)

In one audit,[4] which is included in Part I.A, the inspection team identified deficiencies related to the firm's (1) identification and assessment of the risks of material misstatement for relevant assertions and (2) evaluation of the presentation and disclosure of warrants.

C. Testing the Allowance for Doubtful Accounts

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 the allowance for doubtful accounts will meet the requirements of AS 1105 and AS 2501. (QC 20.03 and .17)

[3] Issuer A
[4] Issuer A

In one audit,[5] which is included in Part I.A, the inspection team identified deficiencies related to the firm's testing of the allowance for doubtful accounts.

D. 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,[6] which is included in Part I.A, 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 fraud risk.

5 Issuer A

6 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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.