
2019 Inspection Berkower LLC

(Headquartered in Iselin, New Jersey)

July 6, 2021

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2019 Inspection

During the Public Company Accounting Oversight Board (“PCAOB”)’s 2019 inspection of Berkower LLC, 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 procedures¹	4	0
Total engagement partners on issuer audit work²	1	2
Audits Reviewed		
Total audits reviewed³	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	1
Audits with Part I.A deficiencies	2	1

¹ Although the firm had no issuer audit clients at the outset of the preceding inspection, the firm had issued at least one audit report with respect to an issuer since the preceding inspection.

² 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.

³ 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.

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 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
Certain assets	2	Certain assets	1
Revenue and related accounts	1	Revenue and related accounts	1
Certain transactions	1	A liability	1
		A significant account	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**:

The issuer disclosed in its financial statements that it recognized revenue under FASB ASC Topic 606, *Revenue from Contracts with Customers*. The firm did not evaluate the appropriateness of the issuer's recognition of revenue under FASB ASC Topic 606. (AS 2810.30)

The firm did not test, or in the alternative, test any controls over, the accuracy and completeness of issuer-prepared data used in its substantive testing of revenue. (AS 1105.10)

The firm used certain price and quantity information from outside sources in its substantive testing of revenue but did not perform any procedures to evaluate the relevance and reliability of such information. (AS 1105.04 and .06; AS 2502.40)

The firm did not evaluate whether the issuer's financial statements included sufficient disclosures of the risks and uncertainties related to its revenue and related activities in accordance with FASB ASC Topic 275, *Risks and Uncertainties*, and other relevant standards. (AS 2810.30 and .31) In addition, the firm did not perform any procedures to determine whether any of the revenue and related activities were with related parties. (AS 2410.10)

With respect to **Certain Assets**:

The firm did not perform any procedures to evaluate the relevance and reliability of evidence it used to test the issuer's ownership rights to certain assets at year end. (AS 1105.04 and .06) In addition, the firm did not evaluate the appropriateness of the issuer's presentation of these assets at year end (AS 2810.30 and .31) and did not test the disposal of certain assets, including the loss recorded on disposition. (AS 2301.08)

During the year, the issuer purchased other certain assets from, and then sold some of those assets at a loss back to, a counterparty. The following deficiencies were identified:

- The firm did not test payments for the purchase of the assets from the counterparty. (AS 2301.08)
- The firm did not evaluate whether a payment made by the counterparty to another entity on behalf of the issuer was part of the proceeds from the issuer's sale of those assets to the counterparty. (AS 2301.08)
- The firm did not evaluate the collectability of the outstanding receivable recorded at year end for the sale of the assets to the counterparty. (AS 2501.07)
- The firm did not evaluate the relevance and reliability of certain data it used to assess the reasonableness of certain assumptions the issuer used in the valuation of the assets. (AS 1105.04 and .06; AS 2501.11)
- The firm did not perform sufficient procedures to test the impairment recorded on the assets, because it limited its procedures to inquiry regarding how the loss was calculated. (AS 2502.26 and .28)

Issuer B

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Certain Assets**:

The issuer had certain agreements outstanding with counterparties as of year end. The following deficiencies were identified:

- The firm did not evaluate whether the agreements were appropriately accounted for and disclosed in accordance with GAAP. (AS 2810.30 and .31)
- The firm did not obtain an understanding of and test the inputs, methods, and assumptions used to estimate the fair value of the recorded assets related to these transactions. (AS 2502.09, .26, and .28) Further, the firm did not test the valuation of the underlying collateral. (AS 2502.15)

- The firm did not evaluate whether the transactions should be identified as transactions with related parties, because the counterparties were controlled by an individual who was listed as an officer of the issuer in a public filing, and certain of the collateral was held by an entity the issuer disclosed as an entity with control. (AS 2410.14)

With respect to **Certain Transactions**:

The firm did not test whether certain transactions were recorded on the proper dates and at the correct amounts. (AS 2301.08)

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 areas below were 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 any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of two audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the results of the audit prior to the issuance of the auditor's report. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the two audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In two audits, the firm did not file its report on Form AP by the relevant deadline. In these instances, 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.

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.

April 14, 2021

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

Re: Response to Part 1 of the Draft Report on the 2019 Inspection of Berkower LLC

Dear Mr. Botic:

We are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2019 inspection of Berkower LLC, dated March 12, 2021 ("Draft Report").

Berkower LLC is committed to the highest standards of audit quality. We diligently monitor our audit processes and modify our methodologies, policies, and procedures when we identify improvements that could enhance audit quality. We fully support the efforts of the PCAOB to improve audit quality. We respect the PCAOB inspection process, and we use the process to recognize areas where we may improve audit quality and strengthen our system of quality control.

We have evaluated the matters described in Part 1 of the Draft Report, and have taken appropriate actions to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

We believe in the mission of the PCAOB and remain committed to improving our audit performance. We look forward to continuing to work with the PCAOB to achieve our shared objective of continual improvement in audit quality.

Sincerely,


Berkower LLC

