
2022 Inspection

JLKZ CPA LLP

(Headquartered in Flushing, New York)

May 11, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

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(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2023-069)



TABLE OF CONTENTS

2022 Inspection.....	2
Overview of the 2022 Inspection.....	3
Part I: Inspection Observations.....	5
Part I.A: Audits with Unsupported Opinions	6
Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules	7
Part I.C: Independence.....	9
Part II: Observations Related to Quality Control	10
Appendix A: Firm’s Response to the Draft Inspection Report.....	A-1

2022 INSPECTION

In the 2022 inspection of JLKZ CPA LLP, the Public Company Accounting Oversight Board (PCAOB) 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. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 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 necessarily 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 or 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 2022 INSPECTION

The following information provides an overview of our 2022 inspection, which was our first inspection of this firm. 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 Selected for Review

	2022
Firm data	
Total issuer audit clients in which the firm was the principal auditor	3
Total engagement partners on issuer audit work¹	2
Audits reviewed	
Total audits reviewed	2
Audits in which the firm was the principal auditor	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	1
Percentage of audits with Part I.A deficiencies	50%

If we include a deficiency 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 deficiency 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

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, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

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.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it 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 2022 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.

2022	
Audit area	Audits reviewed
Cash and cash equivalents	2
Financial reporting and close	2
Revenue and related accounts	1
Other assets	1
Long-lived 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(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("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. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding 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 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 audits 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 audits 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 revised its report, on ICFR.

This classification does not include audits where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes audits 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 audits 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) and industry sector. Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits 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 – Financials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue and Related Accounts, Long-Lived Assets, Financial Reporting and Close, and Uncorrected Misstatements**. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts**, for which the firm identified a fraud risk:

The issuer disclosed that it recognized revenue in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers*. For certain revenue transactions, the firm did not (1) take into account certain contradictory audit evidence and (2) perform procedures to evaluate whether (a) performance obligations were appropriately identified, (b) the determination of transaction prices was appropriate, (c) the issuer was acting as either a principal or agent for goods or services, and (d) it was appropriate to recognize revenue at a point in time or over time. (AS 2301.08 and .13; AS 2810.03) In addition, the firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of data and reports produced by the issuer that the firm used in its testing of revenue. (AS 1105.10)

The firm also did not perform any substantive procedures to test a portion of a revenue related account. (AS 2301.08)

With respect to **Long-Lived Assets**:

The issuer held certain long-lived assets that were recorded at cost and reviewed by the issuer for indicators of potential impairment. The firm did not perform any substantive procedures to test the existence of these long-lived assets. (AS 2301.08) In addition, the firm did not sufficiently test the valuation of certain of these long-lived assets because the firm did not perform any procedures to evaluate the relevance and reliability of information used in the issuer's impairment assessment. (AS 1105.04 and .06)

With respect to **Financial Reporting and Close**, for which the firm identified a fraud risk:

The issuer recorded certain adjustments as part of its year-end financial reporting process. The firm did not perform any procedures to examine these adjustments. (AS 2301.41)

With respect to **Uncorrected Misstatements**:

The firm identified uncorrected misstatements in the current year audit. The firm did not evaluate whether the uncorrected misstatements were material, individually or in combination with other misstatements. (AS 2810.17)

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 certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

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 reviewed and 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 the two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the firm's evaluation of the issuer's ability to continue as a going concern and, in one of these audits, the corrected and uncorrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In one of two audits reviewed, the firm did not provide a copy of the management representation letter to the issuer's audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In one of two audits reviewed, the firm did not identify and assess the risks of material misstatement related to significant accounts and disclosures at the assertion level. In addition, the firm did not discuss the susceptibility of the company's financial statements to material misstatements due to error or fraud. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In two audits, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In these instances, 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*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

PART I.C: INDEPENDENCE

In the 2022 inspection, we did not identify, and the firm did not bring to our attention, any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. Although this section does not include any instances of potential non-compliance that we identified or the firm brought to our attention, there may be instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

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.

We include deficiencies 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.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. 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, we will make public any such deficiency.

Testing Revenue 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 with respect to testing revenue and related accounts will meet the requirements of AS 2301 and AS 2810. (QC 20.03 and .17)

In one audit,² which is included in Part I.A, the inspection team identified deficiencies related to the firm's substantive testing of revenue and a related account.

* * * *

Testing Data and Reports used in Substantive Procedures

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 with respect to testing data and reports used in substantive procedures will meet the requirements of AS 1105. (QC 20.03 and .17)

In one audit,³ which is included in Part I.A, the firm did not test, or sufficiently test, data and reports that it used in its substantive testing. In this audit, the firm did not (1) perform any procedures to test, or test controls over, the accuracy and completeness of certain data or reports that it used in its substantive procedures and (2) evaluate the relevance and reliability of other data that it used in its substantive procedures.

² Issuer A

³ Issuer A

* * * *

Critical Audit Matters

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm's personnel will comply with the requirements of AS 3101 with respect to critical audit matters. (QC 20.03 and .17)

In two audits,⁴ both of which are included in Part I.B, the inspection team identified deficiencies related to the firm's procedures for determining whether or not matters were critical audit matters.

Financial Reporting and Close

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 with respect to testing material adjustments recorded as part of the financial reporting process will meet the requirements of AS 2301. (QC 20.03 and .17)

In one audit,⁵ which is included in Part I.A, the inspection team identified a deficiency related to the firm's substantive testing of material adjustments made by the issuer during the course of preparing the financial statements.

Evaluating Audit Results

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 with respect to evaluating audit results will meet the requirements of AS 2810. (QC 20.03 and .17)

In one audit,⁶ which is included in Part I.A, the firm did not evaluate whether uncorrected misstatements were material, individually or in combination with other misstatements.

⁴ Issuers A and B

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.

