2022 Inspection Weinstein International CPA

(Headquartered in Tel Aviv, State of Israel)

September 14, 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

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB RELEASE NO. 104-2023-167

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2022 INSPECTION

In the 2022 inspection of Weinstein International CPA, 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 three audits of issuers with fiscal years generally ending in 2021. 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	10
Total issuer audits in which the firm was not the principal auditor	0
Total engagement partners on issuer audit work[1]	1
Audits reviewed	
Total audits reviewed	3
Audits in which the firm was the principal auditor	3
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	3
Percentage of audits with Part I.A deficiencies	100%

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.

[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*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

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.

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.

In connection with our 2022 inspection procedures for one audit, the issuer corrected a misstatement in a subsequent filing by adjusting the prior-period financial statements.

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**
Other assets	2
Related party transactions	1
Cash and cash equivalents	1
Debt	1
Equity and equity-related transactions	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). 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

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Related Party Transactions**, **Other Assets**, and **Preferred Shares**. The firm identified a fraud risk with respect to income statement transactions. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

With respect to **Related Party Transactions**:

During the year, the issuer entered into a settlement agreement ("Settlement Agreement") with a related party ("Related Party A") in which the issuer returned rights related to software to Related Party A and Related Party A cancelled the issuer's remaining debt for the issuer's initial purchase of the software. Subsequent to this Settlement Agreement, and after the issuer returned its rights to the software, the issuer sold the software to another related party ("Related Party B") in exchange for other assets and a loan receivable. Subsequent to this transaction, the issuer engaged in another transaction with Related Party A ("Subsequent Transaction"), in which the issuer paid Related Party A other assets in exchange for cancellation of debt. The following deficiencies were identified:

- The firm did not evaluate whether the terms and other information about the transactions were consistent with inquiries and other audit evidence about the business purpose (or lack thereof) of the transactions. (AS 2410.12a)

- The firm did not evaluate whether the business purpose (or lack thereof) indicated that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets. (AS 2401.67)

- The firm did not perform any procedures to determine whether the issuer had ownership of or other rights to sell the software to Related Party B. (AS 2301.08; AS 2410.11)

- The firm did not perform any procedures to evaluate the financial capability of Related Party B with respect to the loan receivable. (AS 2410.12d)

- The firm did not perform any procedures to determine whether the debt cancellation in the Subsequent Transaction had been previously cancelled under the Settlement Agreement. (AS 2301.08; AS 2410.11)

During the prior year, the issuer sold certain assets to Related Party A in return for the cancellation of debt. In addition, in the prior year, Related Party A transferred these assets to another related party ("Related Party C") as settlement of debt. During the current year, the issuer repurchased these assets from Related Party C for the issuance of preferred shares, which were recorded as an expense. The issuer did not assign a book value to these assets. The following deficiencies were identified:

- The firm did not evaluate whether the terms and other information about the transaction were consistent with inquiries and other audit evidence about the business purpose (or lack thereof) of the transactions. (AS 2410.12a)

- The firm did not evaluate whether the business purpose (or lack thereof) indicated that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets. (AS 2401.67)

- The firm did not perform any procedures to test the existence and valuation of the acquired assets. (AS 2301.08; AS 2410.11)

With respect to **Other Assets**, for which the firm identified a significant risk:

During the year, the issuer acquired other assets from Related Party B ("Other Assets A") and recorded them as non-current intangible assets. The issuer subsequently disposed of the majority of Other Assets A in exchange primarily for the settlement of related party debt. The issuer presented this disposal as revenue and cost of sales. In addition, the issuer acquired additional other assets ("Other Assets B") from a customer for services rendered and recorded them as current intangible assets. The following deficiencies were identified:

- The firm did not perform any substantive procedures to establish that the issuer had control over these other assets to support its rights and obligations. (AS 2301.08 and .11; AS 2410.11)

- The firm did not perform any substantive procedures to evaluate the reliability of information from a related party and data from an external provider that it used to test the existence of these other assets. (AS 1105.04 and .06)

- The firm did not perform any substantive procedures to evaluate the reliability of pricing information that it used to test the valuation of these other assets. (AS 1105.04 and .06)

- The firm did not identify and evaluate a GAAP departure related to the issuer presenting Other Assets B as indefinite lived intangible assets while also carrying them at fair value. (AS 2810.30)

- The firm did not evaluate whether the issuer's accounting for its other assets as (1) intangible assets and (2) as current or non-current assets was appropriate and in conformity with GAAP. (AS 2301.08 and .11)

- The firm did not evaluate whether the issuer's recording of revenue for the transfer of Other Assets A to a related party qualified as a transaction with a customer in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2410.17; AS 2810.03)

In connection with our review, the issuer reevaluated the accounting for the transfer of Other Assets A as revenue and cost of sales and determined that a misstatement existed that had not been previously identified. The issuer did not file an amended Form 10-K or a Form 8-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected this misstatement in a subsequent filing by revising the accounting.

With respect to **Preferred Shares**:

During the year, the issuer issued preferred shares and recorded them within stockholder's equity. The firm did not evaluate whether the issuer's accounting for, and presentation of, the issuance of these preferred shares was in conformity with FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, and FASB ASC Topic 820, *Fair Value Measurement*. (AS 2301.08)

The issuer engaged an external specialist to determine the fair value of the preferred shares. The following deficiencies were identified:

- The firm did not evaluate the reasonableness of the significant assumptions developed by the company's specialist. (AS 1105.A8b)

- The firm did not evaluate the appropriateness of the methods the company's specialist used to determine the fair value. (AS 1105.A8c)

- The firm did not identify and evaluate the effect on the fair value determination of certain inconsistencies related to the rights of the preferred shares between the company's specialist report, the disclosures in the financial statements, and the issuer's Amended Articles of Incorporation. (AS 1105.A9c and .A10)

The firm did not perform any procedures to test the issuer's financial statement disclosures regarding certain of the rights related to the preferred shares, including consideration of the differences between the company's specialist's report, the disclosures, and the issuer's Amended Articles of Incorporation. (AS 2301.08; AS 2810.03)

Audits with Multiple Deficiencies

Issuer B

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer issued convertible notes with warrants. The issuer engaged an external specialist to determine the standalone fair values of the convertible notes and warrants to determine the allocation of proceeds and recording of debt and equity associated with the transaction. The following deficiencies were identified:

- The firm did not evaluate whether the issuer's accounting for the convertible notes was in conformity with GAAP, including whether (1) the conversion options should have been bifurcated and accounted for as derivatives in conformity with FASB ASC Topic 815, *Derivatives and Hedging*, or (2) the convertible notes should have been separated into a liability component and the embedded conversion option in conformity with FASB ASC Topic 470, *Debt*. (AS 2301.08)

- The firm did not perform any substantive procedures to evaluate the reasonableness of the significant assumptions developed by the company's specialist to determine the fair values of the convertible notes and warrants. (AS 1105.A8b)

- The firm did not perform any substantive procedures to evaluate whether the method used by the company's specialist to determine the fair values of the convertible notes and warrants was appropriate in the circumstances, taking into account the requirements of the applicable financial reporting framework. (AS 1105.A8c)

Subsequent to the issuance of the convertible notes with warrants, the issuer also issued shares of common stock to the noteholder. The following deficiencies were identified:

- The firm did not perform substantive procedures, beyond obtaining a copy of the securities purchase agreement, to test the issuance of the shares to the noteholder. (AS 2301.08)
- The firm did not evaluate an apparent discrepancy between the statement of stockholders' equity and the issuer's footnote disclosures regarding the issuance of these shares. (AS 2301.08)

Issuer C – Industrials

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to an **Other Asset**, for which the firm identified a significant risk.

Description of the deficiencies identified

During the year, the issuer changed the accounting and presentation of an asset from one asset class to another. The firm did not perform procedures to evaluate whether this change was appropriate, including consideration of contrary evidence that indicated that the asset may not have met the criteria for the new classification. (AS 2301.08 and .11; AS 2810.03) In addition, the firm did not perform procedures to evaluate whether this change in classification was appropriately presented and disclosed in conformity with FASB ASC Topic 205, *Presentation of Financial Statements*. (AS 2301.08 and .11)

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 one of three audits reviewed, the firm did not make any of the required communications to the issuer's entire audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of three audits reviewed, the firm did make certain required communications to the issuer's audit committee related to (1) all of the significant risks identified through its risk assessment procedures; (2) the firm's evaluation of the issuer's ability to continue as a going concern; (3) the results of the audit prior to the issuance of the auditor's report; and (4) the issuer's critical accounting policies and practices and critical accounting estimates. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of three audits reviewed, the firm did not evaluate whether control deficiencies individually, or in combination, represented a material weakness, and in its communication to the audit committee, the firm did not include the definition of a significant deficiency. In these instances, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.

- In one of three audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to its evaluation of the issuer's identification of, accounting for, and disclosure of its relationships and transactions with related parties. In the same audit, the firm did not inquire of the issuer's audit committee regarding the audit committee's understanding of the issuer's relationships and transactions with related parties that are significant to the issuer and whether any member of the audit committee had concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns. In these instances, the firm was non-compliant with AS 2410, *Related Parties*.

- In the three audits reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In these instances, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*.

- In one of two audits reviewed, the firm did not perform any procedures to comply with the requirements related to critical audit matters. 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*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In one audit, 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 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*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In one audit, the firm's communication of critical audit matters in the audit report did not describe for a matter the principal considerations that led the firm to determine that the matter was a critical audit matter. 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*.

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.

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.

WEINSTEIN INTERNATIONAL

Mr. George Botic
Director, Division of Registration and Inspection
Public Company Accounting Oversight Board
1666 K Street, NW
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Dear Mr. Botic

Weinstein International C.P.A. very appreciates the opportunity to provide a response to the PCAOB's 2022 Draft Inspection Report.

As a firm committed to upholding the highest standards of audit quality, we consider ourselves partners in the PCAOB's ongoing efforts to enhance the overall quality of accountants' audits.

We recognize our obligation to remain abreast of the professional innovations introduced by the PCAOB, and we are fully dedicated to implementing these advancements into our audit practices.

This is the first Inspection of Weinstein International C.P.A. by the PCAOB's staff - has proven to be a valuable process, enhancing both our audit performance and our overall quality control system.

We studied the sections of the inspection well, and will make sure to correct the comments well in our office.

Even prior to receiving the Inspection draft for 2022, we took proactive measures to incorporate new and updated comprehensive procedures and processes into our audit protocols for our issuers.

We extend our sincere gratitude to the PCAOB staff for their unwavering professionalism.

We look forward to further collaborating with the PCAOB to continuously improve our audit services and contribute to the overall advancement of the accounting profession.

Respectfully,

Idan Weinstein

Weinstein International C.P.A.

Tel Aviv, Israel

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