2023 Inspection Kost Forer Gabbay & Kasierer

(Headquartered in Tel-Aviv, Israel)

March 21, 2024

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

TABLE OF CONTENTS

2023 INSPECTION

In the 2023 inspection of Kost Forer Gabbay & Kasierer 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 seven audits of issuers with fiscal years ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2023 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 2023 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 inspection 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 Selected for Review

	2023	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	58	52
Total issuer audits in which the firm was not the principal auditor	5	6
Total engagement partners on issuer audit work[1]	27	18
Audits reviewed		
Total audits reviewed[2]	7	6
Audits in which the firm was the principal auditor	6	5
Audits in which the firm was not the principal auditor	1	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	6	6
Audits with Part I.A deficiencies	3	1
Percentage of audits with Part I.A deficiencies	43%	17%

[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.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit.

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 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 2023 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.

2023		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	7	**Revenue and related accounts**	6
Cash and cash equivalents	2	**Cash and cash equivalents**	4
Inventory	2	**Investment securities**	2
Accruals and other liabilities	1	**Inventory**	1
Goodwill and intangible assets	1	**Income taxes**	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, (1) 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 or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

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) or fulfill the objectives of its role in the audit(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 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 revised 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. 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 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(s) on the issuer's financial statements and/or ICFR.

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

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**, **Accruals and Other Liabilities**, **Unrealized Gain**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue**:

The issuer recognized revenue from multiple sources. The following deficiencies were identified:

- To test certain revenue, the firm selected transactions from a report the issuer prepared and recalculated the related revenue using the key terms underlying the selected transactions, as reflected in the report. The firm did not perform any procedures to test the (1) occurrence of the selected transactions and (2) accuracy of the key terms underlying those transactions that the firm used to recalculate the related revenue. (AS 2301.08)

- The firm did not perform any procedures to test certain other revenue. (AS 2301.08)

With respect to **Accruals and Other Liabilities** and **Unrealized Gain**:

The firm did not perform any procedures to evaluate the reliability of information it obtained from the issuer's website and used to test the valuation of certain liabilities and an unrealized gain. (AS 1105.04 and .06)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient procedures to test the selected journal entries because it did not examine the underlying support for the entries and, instead, limited its procedures to reading the journal entry descriptions. (AS 2401.61)

Issuer B – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The following deficiencies were identified:

- The firm did not identify and evaluate a departure from GAAP related to the issuer's omission of a revenue-related disclosure required by FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31)

- The firm did not perform procedures to test certain revenue beyond determining, for a sample of revenue transactions, that a contract existed between the issuer and the respective clients and agreeing the respective amounts recorded to invoices the issuer generated. (AS 2301.08)

With respect to **Accounts Receivable and Related Assets**:

The sample size the firm used in its substantive procedures to test certain receivables and related assets was too small to provide sufficient appropriate audit evidence because the firm did not take into account the relevant factors in determining its sample size, including tolerable misstatement for the population, the allowable risk of incorrect acceptance, and the characteristics of the population. (AS 2315.16, .19, .23, and .23A)

Issuer C – Consumer Discretionary

Type of audit and related area affected

In our review, we identified deficiencies in the ICFR audit related to **Revenue**.

Description of the deficiencies identified

The issuer operated an e-commerce platform. The following deficiencies were identified:

- The firm selected for testing a control over revenue that consisted of the issuer's review and approval of third-party invoices, including the performance of certain two-way and three-way matches between those invoices and documents and/or information produced by the issuer. The firm did not test the aspects of the control related to the two-way and three-way matches. (AS 2201.42 and .44)

- The firm selected for testing another control over revenue that consisted of the issuer's review and approval of certain changes the issuer made to data in its system that affected revenue recognition. The firm identified a deficiency in the design and operating effectiveness of this control. The firm identified and tested a compensating control that it believed would mitigate the deficiency. The firm did not identify that the other control did not address the appropriateness of changes made by authorized personnel. (AS 2201.68)

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) or fulfill the objectives of its role in the audit(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 two of seven audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In one of two audits reviewed, the firm did not make a required communication to the audit committee in a timely manner related to the name, location, and planned responsibilities of an other accounting firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two of seven audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In these instances, the firm was non-compliant with AS 2101, *Audit Planning*.

- In one audit reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not consider certain characteristics of potentially fraudulent journal entries when identifying and selecting entries for testing. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of six audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. 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*.

- In five of five audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include one or more matters that were communicated to the 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

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes an instance of potential non-compliance that the firm brought to our attention, there may be other 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.

PCAOB-Identified

We did not identify any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, one instance for one issuer,[3] in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(c) of Regulation S-X related to maintaining independence.

While we have not evaluated the underlying reasons for the 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 any 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 these firm-identified instances of potential non-compliance across firms.

The firm reported one instance of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, which occurred at the firm or involved its personnel. This instance related to an investment in an audit client where a partner in the same office as the engagement partner for an issuer had a financial relationship with that issuer.

The firm has reported to us that it has evaluated this instance of potential non-compliance and determined that its objectivity and impartiality were not impaired. The firm also reported to us that it has communicated this instance to the issuer's audit committee in accordance with PCAOB Rule 3526.

[3] The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

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.

March 1 2024

Ms. Christine Gunia
Director, Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Response to the Draft Inspection Report on the 2023 Inspection of Kost Forer Gabbay & Kasierer (Headquartered in Tel-Aviv, Israel)

Dear Ms. Gunia,

We are pleased to provide our response to the draft inspection report (the Report) from the Public Company Accounting Oversight Board (the Board or PCAOB) pertaining to the 2023 inspection of Kost Forer Gabbay & Kasierer (Headquartered in Tel-Aviv, Israel).

Our overriding objective is to make certain that all aspects of our auditing and quality control processes are of the highest quality for the continued benefit of the capital markets in which the public participates and on which they rely. The PCAOB's inspection process assists us in achieving that objective.

We respect the PCAOB's inspection process and understand that judgments are involved in performing audits, as well as in subsequent inspections of those audits. We have thoroughly evaluated all matters described in Part I, *Inspection Observations*, and are taking actions, where appropriate, in accordance with PCAOB standards and our policies. We have reviewed the remainder of the Report and have no further comments.

We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our U.S. SEC issuer auditing practice.

Respectfully submitted,
Kost Forer Gabbay & Kasierer
Kost Forer Gabbay & Kasierer