

ORDER

Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").¹

III.

On the basis of Respondents' Offers, the Board finds that:²

A. Respondents

1. **Jeffrey T. Gross Ltd.** registered with the Board pursuant to Section 102 of the Act and PCAOB rules on February 12, 2010. The Firm was a Chicago-based limited liability company, organized under the laws of Illinois (License No. 066.004311), until its involuntary dissolution in 2013. At all relevant times, the Firm was the external auditor for the issuers identified below.

2. **Jeffrey T. Gross, CPA**, age 52, is a certified public accountant licensed by the state of Illinois (License No. 065.036441). According to the Firm's filings with the PCAOB, Gross is the president and sole owner of the Firm. At all relevant times, Gross served as the engagement partner on the audits discussed below, and is an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001 (p)(i).

B. Summary

3. This matter concerns Respondents' multiple violations of PCAOB rules and standards in connection with the Firm's audits of the financial statements of Issuer A for the fiscal year ended July 31, 2017 ("FYE 2017") and Issuer B for the fiscal year ended October 31, 2017 ("FYE 2017") (collectively, "Issuer Audits").³ As detailed below, Respondents failed, among other things, to exercise due professional care and professional skepticism in the performance of the audits. Specifically, in both audits, Respondents failed to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinions regarding the financial statements of the Issuer Audits.

¹ The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

² The Board finds that Respondents' conduct described in this Order meets the condition set out in Section 105(c)(5) of the Act, which provides that certain sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

³ All references to PCAOB rules and standards are to the versions of those rules and standards in effect at the time of the relevant audit or review.

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4. The Firm also failed to comply with AS 1220, *Engagement Quality Review*, by failing to obtain an engagement quality review of the Issuer Audits, even though it was required for both of the Issuer Audits. Gross also violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*, because he took or omitted to take actions knowing, or recklessly not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of AS 1220.

5. The Firm also failed to timely file ten Form AP reports, as required by PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, relating to the Firm's issuance of audit reports for multiple issuer audit engagements. Gross also violated PCAOB Rule 3502 because he took or omitted to take actions knowing, or recklessly not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of Rule 3211.

C. Respondents Violated PCAOB Rules and Standards

6. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with all applicable auditing and related professional practice standards.⁴ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards. Those standards require, among other things, that an auditor plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion.⁵ PCAOB standards require that an auditor exercise due professional care, including professional skepticism, in the performance of the audit and preparation of the report.⁶

7. Under PCAOB standards, the auditor should properly plan the audit.⁷ Planning the audit includes establishing the overall audit strategy for the engagement and developing an audit plan, which includes planned risk assessment procedures and planned responses to the risks of material misstatements.⁸ PCAOB standards also state that the auditor should perform risk assessment procedures that are sufficient to provide

⁴ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

⁵ See AS 1105, *Audit Evidence*, ¶ .04.

⁶ See AS 1015, *Due Professional Care in the Performance of Work*, ¶ .07.

⁷ See AS 2101, *Audit Planning*, ¶ .04.

⁸ See AS 2101.05.

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a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud, and designing further audit procedures.⁹

8. Appropriate audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based.¹⁰ If the auditor has not obtained sufficient appropriate audit evidence about a relevant assertion or has substantial doubt about a relevant assertion, the auditor should perform procedures to obtain further audit evidence to address the matter.¹¹ Representations from management are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.¹²

9. PCAOB standards also require that an engagement quality review be performed on audit engagements, a review of interim financial information, and certain attestation engagements conducted pursuant to PCAOB standards.¹³ AS 1220 also provides that a firm may grant permission to a client to use the engagement report only after an engagement quality reviewer provides concurring approval of issuance of the report.¹⁴

10. PCAOB Rule 3502 prohibits an associated person of a registered public accounting firm from "tak[ing] or omit[ting] to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation" of PCAOB rules or standards.

11. As described below, Respondents failed to comply with PCAOB rules and standards in connection with the Issuer Audits.

Audit of Issuer A's FYE 2017 Financial Statements

12. Issuer A, at all relevant times, was a development stage company headquartered in the Czech Republic. Issuer A's public filings disclose that, at all relevant times, it distributed office equipment to the wholesale market in the United

⁹ See AS 2110, *Identifying and Assessing Risks of Material Misstatement*, ¶ .04.

¹⁰ See AS 1105.06.

¹¹ See AS 2810, *Evaluating Audit Results*, ¶ .35.

¹² See AS 2805, *Management Representations*, ¶ .02.

¹³ See AS 1220, *Engagement Quality Review*.

¹⁴ See AS 1220.13, AS 1220.18, and AS 1220.18C.

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States. At all relevant times, it was an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

13. Gross, as the engagement partner, authorized the Firm's issuance of an audit report, dated September 4, 2017, expressing an unqualified opinion, which included a going concern explanatory paragraph, on Issuer A's financial statements for the year ended July 31, 2017. The audit report was included with Issuer A's Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission") on September 19, 2017.

14. In connection with the audit of Issuer A's financial statements, Respondents failed to exercise due professional care, including professional skepticism, by failing to plan and perform the audit in accordance with PCAOB standards.¹⁵ Respondents failed to establish an overall audit strategy for the engagement and to develop an audit plan.¹⁶ Respondents also failed: to establish a materiality level for the financial statements as a whole;¹⁷ determine an amount or amounts of tolerable misstatement;¹⁸ or perform any risk assessment procedures to identify and assess the risks of material misstatement, whether due to error or fraud.¹⁹

15. Respondents further failed to obtain sufficient appropriate audit evidence concerning significant accounts and disclosures in Issuer A's financial statements.²⁰ Other than obtaining representations from management and certain source documents from Issuer A, including bank statements, certain sales and vendor invoices, and copies of disbursement checks, Respondents failed to perform any procedures relating to Issuer A's reported assets, liabilities, stockholders' equity, revenue, cost of goods sold, and expenses.

16. The Firm also failed to obtain an engagement quality review for the audit, even though it was required to be performed.²¹ The Firm improperly permitted the issuance of its audit report, which was included in Issuer A's Form 10-K filed with the

¹⁵ See AS 1015.01-.02 and AS 1015.07-.09.

¹⁶ See AS 2101.05 and AS 2101.08-.10.

¹⁷ See AS 2105, *Consideration of Materiality in Planning and Performing an Audit*, ¶ .06.

¹⁸ See AS 2105.08.

¹⁹ See AS 2110.04.

²⁰ See AS 1105.04-.06; AS 2810.32-.36.

²¹ See AS 1220.01.

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Commission, without obtaining an engagement quality review and concurring approval of issuance. As a result, the Firm violated AS 1220.

17. Gross, the sole owner of the Firm, was the engagement partner for the audit conducted by the Firm and was responsible for the audit. Accordingly, he had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. Gross knew, or was reckless in not knowing, that, when he caused the Firm to grant permission to Issuer A to use the audit report without the Firm having obtained the required engagement quality review and concurring approval of issuance, he was directly and substantially contributing to the Firm's violations of AS 1220. As a result, Gross violated PCAOB Rule 3502.

Audit of Issuer B's FYE 2017 Financial Statements

18. Issuer B, at all relevant times, was a development stage company, headquartered in Madona, Latvia. Issuer B's public filings disclose that, at all relevant times, it was in the business of distributing pillows. At all relevant times, it was an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

19. The Firm was appointed as Issuer B's independent registered public accounting firm on January 19, 2018, following the predecessor auditor's resignation. Gross's first year audit of Issuer B was the FYE 2017 financial statements.

20. Gross, as the engagement partner, authorized the Firm's issuance of an audit report, dated January 22, 2018, expressing an unqualified opinion on Issuer B's financial statements for the year ended October 31, 2017. The audit report was included with Issuer B's Form 10-K filed with the Commission on February 13, 2018.

21. Respondents failed to obtain sufficient appropriate audit evidence concerning significant accounts and disclosures in Issuer B's financial statements.²² Other than completing audit programs and checklists, and obtaining a bank reconciliation as of year-end, Respondents failed to perform any audit procedures relating to Issuer B's reported assets, liabilities, stockholder's equity, revenue, cost of goods sold, and expenses.

22. The Firm also failed to obtain an engagement quality review for the audit, even though it was required to be performed.²³ The Firm improperly permitted the issuance of its audit report, which was included in Issuer B's Form 10-K filed with the Commission, without obtaining an engagement quality review and concurring approval of issuance. As a result, the Firm violated AS 1220.

²² See AS 1105.04-06; AS 2810.32-.36.

²³ See AS 1220.01.

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23. Gross, the sole owner of the Firm, was the engagement partner for the audit conducted by the Firm and was responsible for that audit. Accordingly, he had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. Gross knew, or was reckless in not knowing, that, when he caused the Firm to grant permission to Issuer B to use the audit report without the Firm having obtained the required engagement quality review and concurring approval of issuance, he was directly and substantially contributing to the Firm's violations of AS 1220. As a result, Gross violated PCAOB Rule 3502.

Failure to Timely File Form AP Reports

24. PCAOB Rule 3211, effective for issuer audit reports issued on or after January 31, 2017, provides that, for each audit report a registered public accounting firm issues for an issuer, the firm must file with the Board a report on Form AP, *Auditor Reporting of Certain Audit Participants*, in accordance with the instructions to that form.²⁴ Form APs are due by the 35th day after the date the audit report is first included in a document filed with the Commission,²⁵ subject to a shorter filing deadline that applies when the audit report is first included in a registration statement under the Securities Act of 1933, as amended.²⁶

25. In connection with a March 2018 inspection of the Firm, the PCAOB inspections staff brought to the Firm's attention its failure to file Form APs regarding the FYE 2017 audits of Issuer A and Issuer B's financial statements. The Firm responded by representing, among other things, that it had made note of the Form AP requirement and would file the Form APs shortly.

26. Despite the notice from the inspections staff, the Firm failed to file the Form APs related to these audits.

27. On September 14, 2018, the Division of Enforcement and Investigations sent the Firm a request for information and documents, inclusive of requests relating to the Firm's failure to comply with PCAOB Rule 3211. On November 15, 2018, the Firm filed one Form AP relating to an audit opinion issued on September 4, 2017. The Firm's failure to timely file this Form AP violated PCAOB Rule 3211.

²⁴ The disclosure requirement for the engagement partner was effective for audit reports issued on or after January 31, 2017. The required disclosure of other accounting firms participating in the audit was effective for audit reports issued on or after June 30, 2017.

²⁵ See Rule 3211(b)(1).

²⁶ In that instance, a firm is required to file the Form AP by the tenth day after the date the audit report is first included in a document filed with the Commission. See Rule 3211(b)(2).

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28. On April 17, 2019, the Firm filed four Form APs relating to audit opinions issued on September 12, 2017, January 22, 2018, March 12, 2018, and July 20, 2018. The Firm's failure to timely file these Form APs violated PCAOB Rule 3211.

29. On April 18, 2019, the Firm filed five Form APs relating to audit opinions issued on October 12, 2018, November 2, 2018, November 19, 2018, December 12, 2018, and February 8, 2019. The Firm's failure to timely file these Form APs violated PCAOB Rule 3211.

30. Gross, the sole owner of the Firm, was the engagement partner responsible for the audits conducted by the Firm where the Firm failed to timely file Form APs after issuing the audit reports. Accordingly, he had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. Gross knew, or was reckless in not knowing, that, for each audit report the Firm issued for an issuer without subsequently timely filing the required Form APs, he was directly and substantially contributing to the Firm's violations of PCAOB Rule 3211. As a result, Gross violated PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Jeffrey T. Gross Ltd. and Jeffrey T. Gross, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Jeffrey T. Gross, CPA is permanently barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);²⁷ and

²⁷ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Gross. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

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- C. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Jeffrey T. Gross Ltd. is permanently revoked.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

July 23, 2019