2019 Inspection MaloneBailey, LLP

(Headquartered in Houston, Texas)

December 17, 2020

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

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. 104-2021-008A
(Includes portions of Part II and Appendix A of the full report that were not included in PCAOB Release No. 104-2021-008)

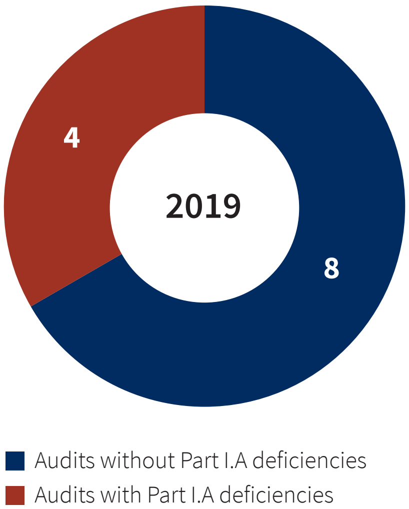
Executive Summary

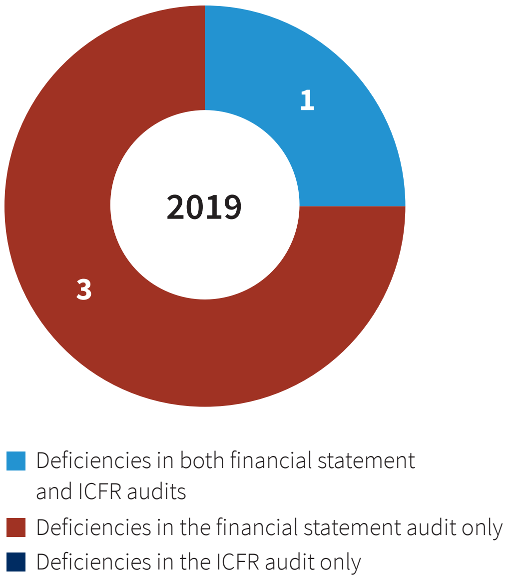
Our 2019 inspection report on MaloneBailey, LLP provides information on our inspection to assess the firm's compliance with Public Company Accounting Oversight Board ("PCAOB") standards and rules and other applicable regulatory and professional requirements. This executive summary offers a high-level overview of: (1) Part I.A of the report, which discusses deficiencies ("Part I.A deficiencies") in certain issuer audits that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or internal control over financial reporting ("ICFR"), and (2) Part I.B of the report, which discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.

The fact that we have included a deficiency in this report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. If a deficiency is included in Part I.A or Part I.B of this report, it does not necessarily mean that the firm has not addressed the deficiency.

Overview of the 2019 Deficiencies Included in Part I

Four of the 12 issuer audits we reviewed in 2019 are included in Part I.A of this report due to the significance of the deficiencies identified. The identified deficiencies primarily related to the firm's testing of controls over and/or substantive testing of revenue and related accounts.





The most common Part I.A deficiencies in 2019 related to evaluating significant assumptions or data that the issuer used in developing an estimate and evaluating the appropriateness of the issuer's accounting method or disclosure.

Other deficiencies identified during the 2019 inspection that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s), which appear in Part I.B, related to audit committee communications and Form AP.

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2019 Inspection

During the PCAOB's 2019 inspection of MaloneBailey, LLP, we assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review 12 audits of issuers with fiscal years ending in 2018. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

What's Included in this Inspection Report

This report includes the following sections:

- **Overview of the 2019 Inspection and Historical Data by Inspection Year:** Information on our inspection, historical data, and common deficiencies.
- **Part I – Inspection Observations:**
  - Part I.A: Deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR.
  - Part I.B: Deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules.
- **Part II – Observations Related to Quality Control:** Criticisms of, or potential defects in, the firm's system of quality control. Section 104(g)(2) of the Sarbanes-Oxley Act ("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.
- **Appendix A – Firm's Response to the Draft Inspection Report:** The firm's response to a draft of this report, excluding any portion granted confidential treatment.

2019 Inspection Approach

In selecting issuer audits for review, we use both risk-based and random methods of selection. We make most 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. We select the remaining audits randomly to provide an element of unpredictability.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work nor of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

Overview of the 2019 Inspection and Historical Data by Inspection Year

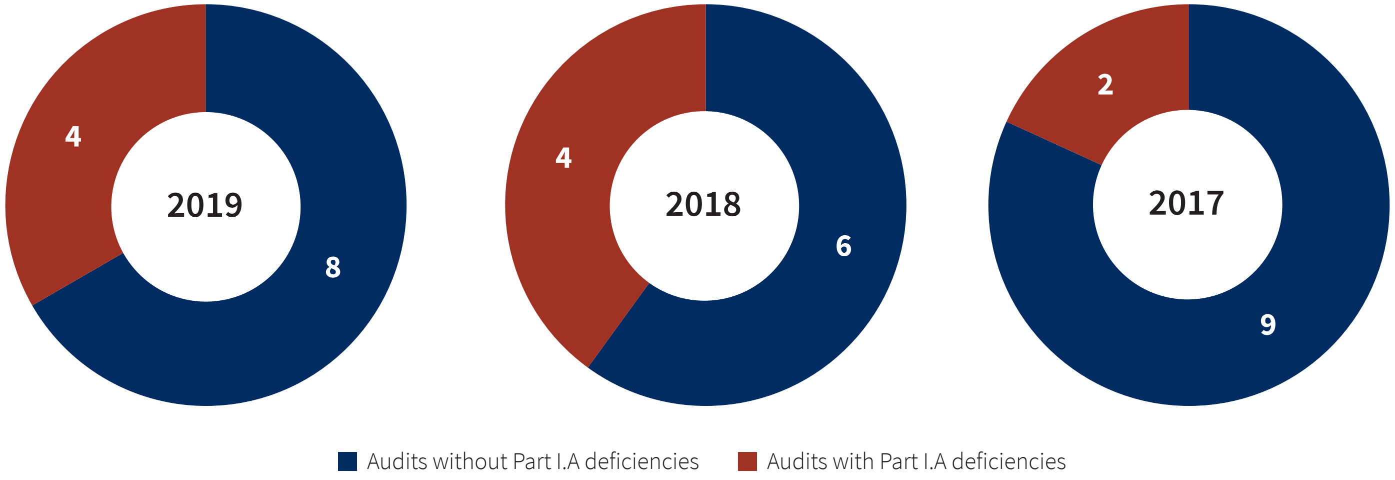
The following information provides an overview of our 2019 inspection as well as data from the previous two inspections. We use a combination of risk-based and random methods to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from year to year and firm to firm. As a result of this variation, we caution that our inspection results are not necessarily comparable over time or among firms.

Audits Reviewed

	2019	2018	2017
Total audits reviewed	12	10	11
Audits in which the firm was the principal auditor	12	10	11
Integrated audits of financial statements and ICFR	1	3	1
Risk-based selections	10	10	11
Random selections	2	0	0

Part I.A Deficiencies in Audits Reviewed

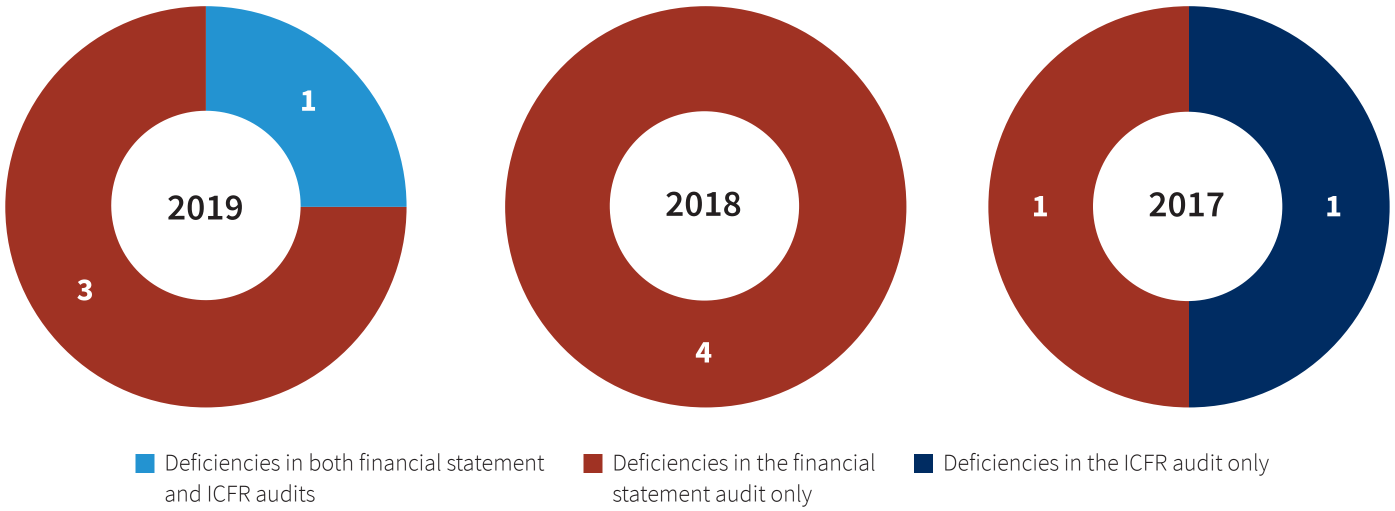
All audits appearing in Part I.A in 2019, 2018, and 2017 were selected for review using risk-based criteria.



If a deficiency is included in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the issue was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports. Our inspection normally includes a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

The fact that we have included a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audits Affected by the Deficiencies Identified in Part I.A



The following tables and graphs summarize inspection-related information, by inspection year, for 2019 and the previous two inspections. We caution against making any comparison of the data provided without reading the descriptions of the underlying deficiencies in each respective inspection report.

Most Frequently Identified Part I.A Deficiencies

Deficiencies in audits of financial statements	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not sufficiently evaluate significant assumptions or data that the issuer used in developing an estimate	3	3	0
Did not sufficiently evaluate the appropriateness of the issuer's accounting method or disclosure for one or more transactions or accounts	2	0	0
Did not perform sufficient testing related to an account or significant portion of an account or to address an identified risk	1	0	0

Deficiencies in ICFR audits	Audits with Part I.A deficiencies		
	2019	2018	2017
Did not perform sufficient testing of the design and/or operating effectiveness of controls selected for testing	1	0	0
Did not identify and/or sufficiently test controls over the accuracy and completeness of data or reports that the issuer used in the operation of controls	1	0	0

Audit Areas Most Frequently Reviewed

This table reflects the five audit areas we have selected most frequently for review in each inspection year (and the related Part I.A deficiencies). For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2019			2018			2017		
Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies	Audit area	Audits reviewed	Audits with Part I.A deficiencies
Revenue and related accounts	11	2	**Revenue and related accounts**	9	1	**Revenue and related accounts**	10	1
Cash and cash equivalents	4	0	**Cash and cash equivalents**	5	0	**Cash and cash equivalents**	3	0
Debt	3	1	**Inventory**	3	2	**Long-lived assets**	2	0
Accruals and other liabilities	3	0	**Income taxes**	2	0	**Debt**	2	0
Derivatives	2	1	**Equity and equity-related transactions**	2	0	**Business combinations**	2	0

Audit Areas with Frequent Part I.A Deficiencies

This table reflects the audit areas with the most frequently identified Part I.A deficiencies in each inspection year with the corresponding results for the other two years presented.

Audit area	2019		2018		2017	
	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed	Audits with Part I.A deficiencies	Audits reviewed
Revenue and related accounts	2	11	1	9	1	10
Business combinations	1	1	1	1	0	2
Debt	1	3	0	1	0	2
Derivatives	1	2	0	1	0	2
Income taxes	1	1	0	2	0	1
Inventory	0	2	2	3	1	1

Revenue and related accounts: The deficiencies in 2019 related to the evaluation of the appropriateness of the issuer's revenue recognition and testing controls over revenue. The deficiency in 2018 related to testing the accuracy and completeness of data and reports used in substantive testing of revenue. The deficiency in 2017 related to identifying and testing controls over revenue.

Business combinations: The deficiencies in 2019 related to substantive testing of certain assumptions that the issuer used to value intangible assets acquired and testing controls over the valuation of acquired intangible assets. The deficiency in 2018 related to substantive testing of assumptions that the issuer used to value assets acquired and liabilities assumed.

Debt: The deficiencies in 2019 related to substantive testing of convertible debt and related disclosures.

Derivatives: The deficiency in 2019 related to substantive testing of the model the issuer used to estimate the fair value of a derivative liability.

Income taxes: The deficiencies in 2019 related to substantive testing of income taxes.

Inventory: The deficiencies in 2018 related to substantive testing of assumptions used in the valuation of inventory. The deficiency in 2017 related to testing the accuracy and completeness of data and reports used in substantive testing.

Auditing Standards Associated with Identified Part I.A Deficiencies

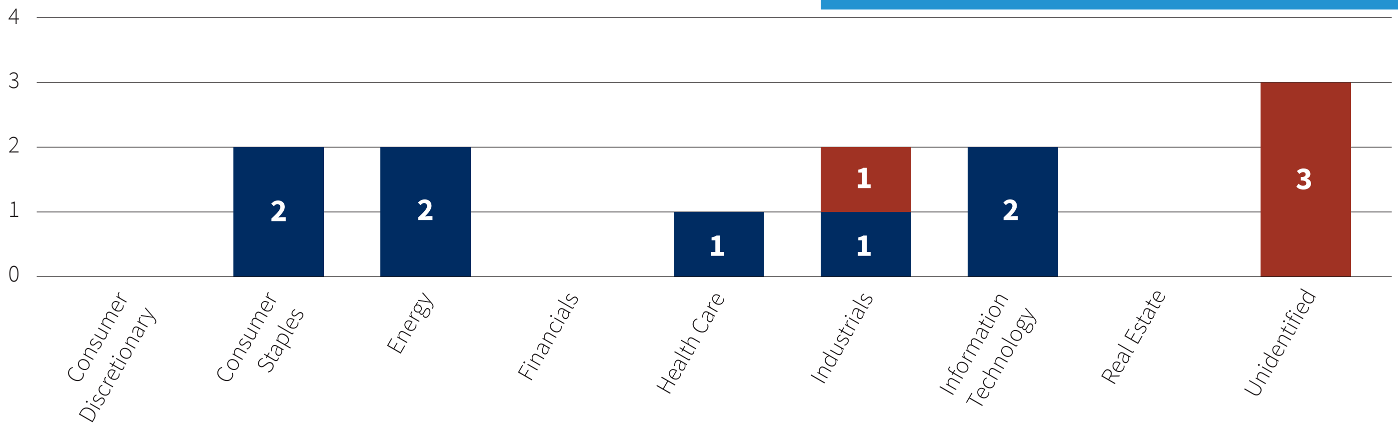
The following lists the auditing standards referenced in Part I.A of the 2019 and the previous two inspection reports and the number of times that the standard is cited in Part I.A.

PCAOB Auditing Standards	2019	2018	2017
AS 1105, ***Audit Evidence***	0	1	1
AS 1210, ***Using the Work of a Specialist***	1	0	0
AS 2201, ***An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements***	5	0	2
AS 2301, ***The Auditor's Responses to the Risks of Material Misstatement***	1	0	0
AS 2501, ***Auditing Accounting Estimates***	0	2	0
AS 2502, ***Auditing Fair Value Measurements and Disclosures***	4	1	0
AS 2810, ***Evaluating Audit Results***	6	0	0

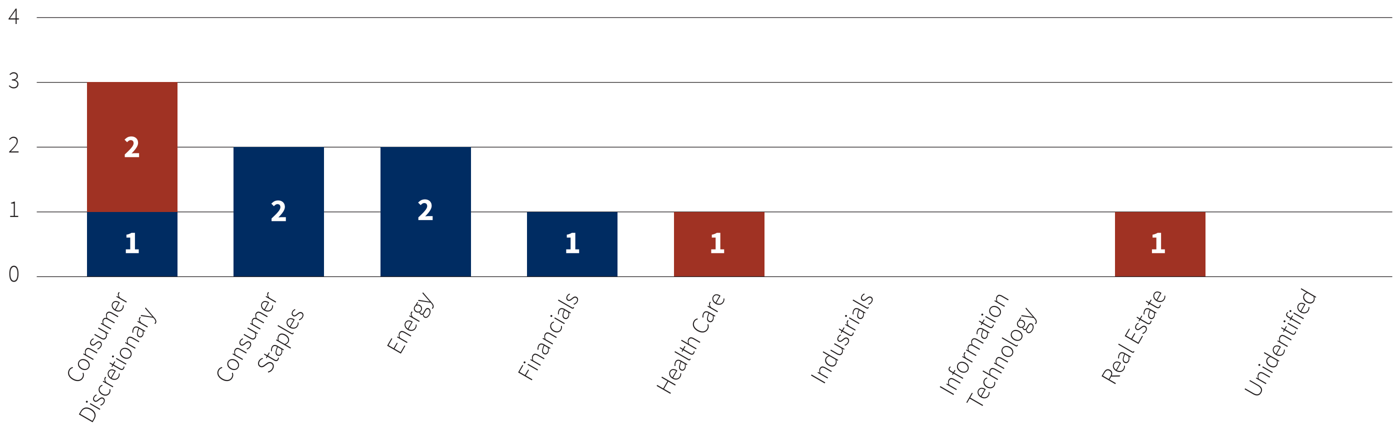
Inspection Results by Issuer Industry Sector

The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS data for an issuer is not available from S&P, classifications are assigned based upon North American Industry Classification System data. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have instead classified such issuer(s) as “unidentified.”

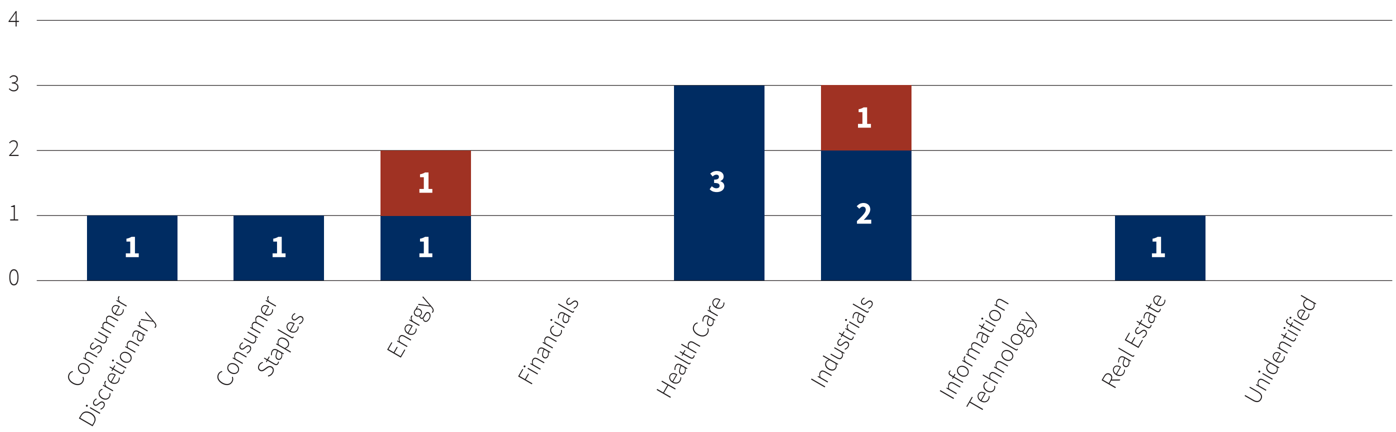
2019



2018



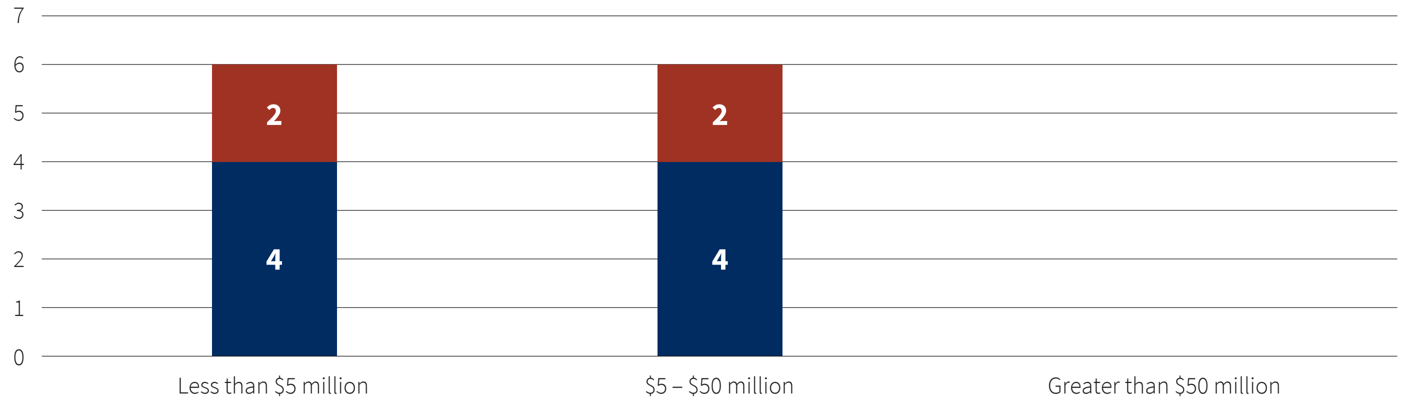
2017



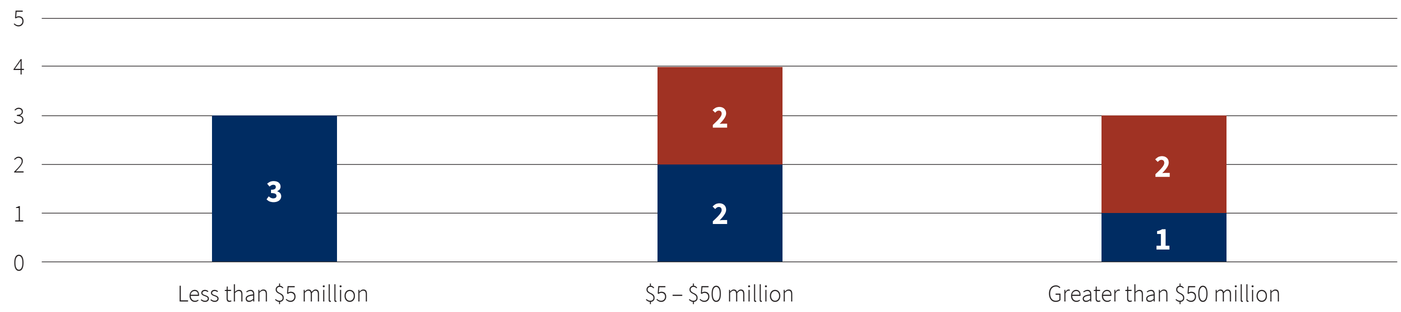
Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Inspection Results by Issuer Revenue Range

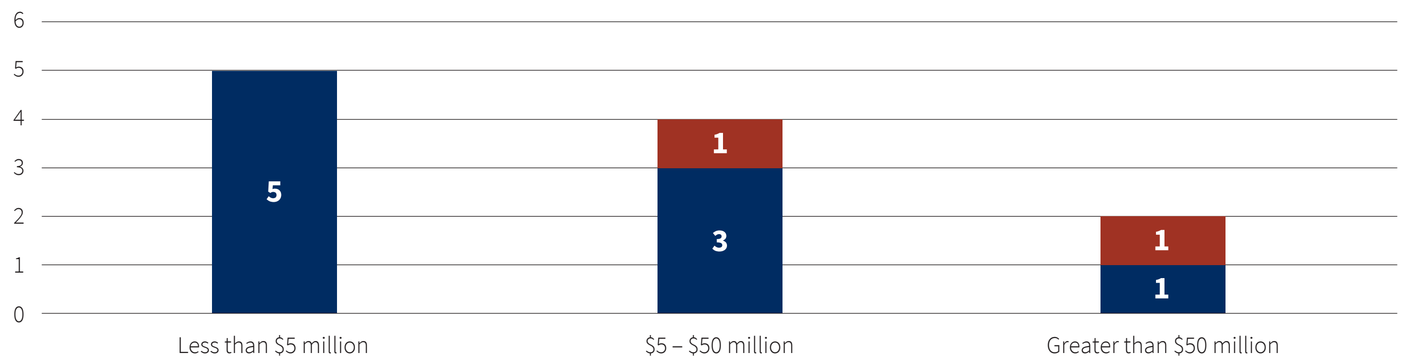
2019



2018



2017



Audits without Part I.A deficiencies   Audits with Part I.A deficiencies

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The sole purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or modified its report, on ICFR. This classification does not include instances where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. Any deficiencies identified in connection with our reviews of these audits would be included in the audits with multiple deficiencies or audits with a single deficiency classification below.

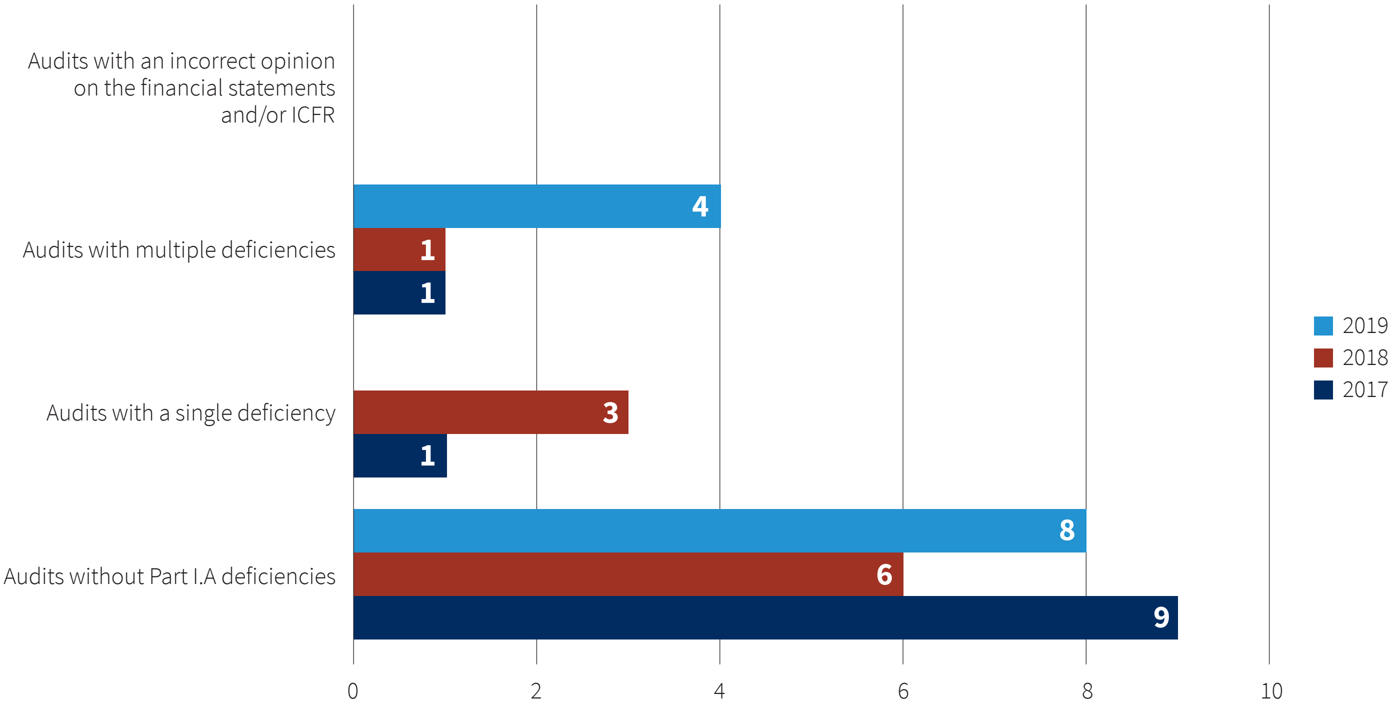
Audits with Multiple Deficiencies

This classification includes instances where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes instances where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

Number of Audits in Each Category



Part I: Inspection Observations

Part I.A of our report discusses deficiencies that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements and/or ICFR. Part I.B discusses deficiencies that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. Consistent with the Act, it is the Board's assessment that nothing in Part I of this report deals with a criticism of or potential defect in the firm's quality control system. Any such criticisms or potential defects are discussed in Part II. Further, you should not infer from any Part I deficiency or combination of deficiencies that a quality control finding is identified in Part II.

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 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(s) that most directly relates to the requirement with which the firm did not comply.

Issuer audits are presented below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue** and **Intangible Assets**.

Description of the deficiencies identified

With respect to **Revenue**:

For one category of revenue, the firm selected for testing an automated application control over the generation of customer invoices and recording of revenue. The firm did not test the configuration of the automated control or perform other procedures that would have provided sufficient appropriate audit evidence that the automated control was designed and operating effectively. (AS 2201.42 and .44)

The firm selected for testing another control that consisted of the issuer's review of a monthly report and the resulting journal entries that were recorded to adjust revenue. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of the report used in the operation of this control. (AS 2201.39)

For another category of revenue, the firm selected for testing two controls that consisted of the issuer's reviews of the source documents and transaction reports that were used to record revenue. The firm did not evaluate the specific review procedures that the control owners performed to determine whether the amount to be recorded as revenue was appropriate. (AS 2201.42 and .44)

With respect to **Intangible Assets**:

The firm selected for testing a control that consisted of the issuer's review of the assumptions used to estimate the fair value of certain acquired intangible assets for reasonableness. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm's approach for substantively testing these assets was to review and test management's process. The firm did not sufficiently evaluate the reasonableness of certain assumptions that the issuer used to value these assets because its procedures were limited to inquiring of management and performing a sensitivity analysis to determine whether changes to the assumptions would result in differences in excess of the firm's established materiality. (AS 2502.26 and .28) In addition, the firm did not perform any substantive procedures to test another assumption. (AS 2502.26 and .28)

Issuer B

Type of audit and related areas affected

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

Description of the deficiencies identified

With respect to **Revenue**:

The issuer entered into a sales agreement with a new customer that contained various terms and conditions that afforded the issuer and the customer certain rights and obligations. The firm did not perform procedures to evaluate whether revenue from this sales agreement was recognized in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*, beyond reading the issuer's revenue recognition memo, the sales agreement, and the bill of sale. (AS 2810.30)

With respect to **Debt**:

The issuer amended its convertible debt agreements. The following audit deficiencies were identified:

- The firm did not evaluate the amendments to the convertible debt agreements to determine whether the issuer's accounting was in conformity with FASB ASC Subtopic 470-60, *Troubled Debt Restructurings by Debtors*. (AS 2810.30)
- The firm did not identify, and evaluate the significance of, the issuer's omission of a required disclosure under FASB ASC Subtopic 470-60 regarding its accounting for the amendments as a troubled debt restructuring. (AS 2810.30 and .31)

The firm also identified an error related to the debt discount balance affecting the prior year that the issuer corrected in the current year. The firm did not evaluate whether this correction was in conformity with FASB ASC Topic 250, *Accounting Changes and Error Corrections*. (AS 2810.30)

With respect to **Derivatives**:

The firm's approach for substantively testing the fair value of the derivative liability was to review and test management's process. The firm did not perform any procedures, beyond inquiring of management, to evaluate whether the model the issuer used to estimate the fair value of the derivative liability was appropriate. (AS 2502.26)

Issuer C

Type of audit and related area affected

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

Description of the deficiencies identified

During the year, the issuer acquired a business and used an external specialist to estimate the fair value of certain of the acquired intangible assets. The firm's approach for substantively testing the fair value of the acquired intangible assets was to review and test management's process. The following deficiencies were identified:

- The firm did not sufficiently evaluate the reasonableness of the revenue growth rate assumptions the issuer provided to the external specialist that the specialist used to estimate the fair value of the acquired intangible assets because it limited its procedures to inquiring of management and comparing the growth rates to historical revenue growth information of another company, without performing procedures to evaluate whether that company's historical results would be representative of the future revenue growth rates of the acquired business. Further, the firm did not evaluate contradictory evidence the specialist included in the valuation report that indicated that the expected revenue growth rate for the issuer's industry was significantly lower than the expected growth rates for the acquired business. (AS 1210.12; AS 2810.03)
- The firm did not sufficiently evaluate the reasonableness of the discount rate developed and used by the external specialist to estimate the fair value of the acquired intangible assets because it limited its procedures to inquiring of the specialist regarding data used in determining the discount rate and comparing certain of those data to data for other companies, without performing procedures to evaluate whether the data for those companies would be representative of the data for the issuer. (AS 2502.26 and .28)
- The firm did not identify, and evaluate the significance of, the issuer's omission of a required disclosure under FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

Issuer D – Industrials

Type of audit and related area affected

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

Description of the deficiencies identified

The firm did not perform any substantive procedures to test the issuer's income tax provision, deferred income tax accounts, income tax accruals, and related disclosures. (AS 2301.08)

Audits with a Single Deficiency

None

Part I.B: Other Instances of Non-Compliance with PCAOB Standards or Rules

This section of our report discusses any deficiencies we identified that do not relate directly to the sufficiency or appropriateness of evidence the firm obtained to support its opinion(s) but nevertheless relate to instances of non-compliance with PCAOB standards or rules. When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not otherwise selected for review and may include 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 six of 12 audits reviewed, the firm did not make certain required communications to the issuer's audit committee, or equivalent, related to (1) the significant risks identified through its risk assessment procedures and (2) a draft of the firm's audit report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In five of 12 audits reviewed, the firm did not make required communications to the issuer's audit committee, or equivalent, related to the implications that the corrected misstatements might have on the issuer's financial reporting process. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In five of 12 audits reviewed, the firm did not communicate the results of the audit to the issuer's audit committee, or equivalent, in a timely manner. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In three of 12 audits reviewed, the firm did not make a required communication to the issuer's audit committee, or equivalent, related to the basis for the determination that the uncorrected misstatements were immaterial, including the qualitative factors considered. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two of 12 audits reviewed, the firm did not provide to the issuer's audit committee, or equivalent, the management representation letter prior to the issuance of the firm's audit report. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees* and AS 2805, *Management Representations*.

- In one audit, the firm's report on Form AP contained inaccurate information related to the participation in the audit by an other accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

Part II: Observations Related To Quality Control

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

Deficiencies are included in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

Any changes or improvements to its system of quality control that the firm may have brought to the Board's attention may not be reflected in this report, but are taken into account during the Board's assessment of whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

Criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified, are nonpublic when the reports are issued. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, any such deficiency will be made public.

Testing Estimates

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 accounting estimates will meet the requirements of AS 1210, AS 2502, and AS 2810. (QC 20.03 and .17)

These deficiencies are a source of concern, not only due to their frequency, but also because the development of estimates can involve complex processes and management's most subjective judgments, which could be susceptible to bias, and thus this area often involves elevated risk. Effective testing of accounting estimates requires the application of professional skepticism and often necessitates the involvement of the most senior members of the engagement team.

The inspection team identified deficiencies in this area in three audits,[1] all of which are included in Part I.A. In all of these audits, the firm did not evaluate, or sufficiently evaluate, the reasonableness of one or more estimates, including the reasonableness of certain significant assumptions underlying the estimate.

Supervision of the Audit

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the supervisory activities, including reviews of audit work, performed by the firm's engagement partners will meet the requirements of AS 1201. (QC 20.03 and .17)

In four audits,[2] all of which are included in Part I.A, the inspection team identified one or more deficiencies that the engagement partner should have identified and appropriately addressed but did not. In two of these audits,[3] the engagement team had identified a significant risk, including in some cases a fraud risk, in the area in which a deficiency was identified.

[1] Issuers A, B, and C

[2] Issuers A, B, C, and D

[3] Issuers A and B

Engagement Quality Review

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the review procedures performed by the firm's engagement quality review ("EQR") partners will meet the requirements of AS 1220. (QC 20.03 and .17)

In two audits,[4] both of which are included in Part I.A, the inspection team identified one or more deficiencies in an area that the EQR partner was required to evaluate. In both of these audits, the EQR partner did not identify a deficiency in an area of significant risk, including in some cases a fraud risk.

* * * *

Internal Inspection Program

The inspection results indicate that the firm's system of quality control related to monitoring does not provide reasonable assurance that the firm's internal inspection program is suitably designed and is being effectively applied. (QC 20.20)

The firm's internal inspection program is one of the firm's mechanisms to assess compliance with firm policies, procedures, and applicable professional and regulatory standards. The PCAOB reviewed two issuer audits[5] that had also been inspected under the firm's internal inspection program. In one of these audits where the same areas were reviewed,[6] the PCAOB identified Part I.A deficiencies that were not detected by the internal inspectors.

* * * *

[4] Issuers A and B

[5] Issuers A and D

[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 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.

malonebailey LLP
CERTIFIED PUBLIC ACCOUNTING FIRM

December 2, 2020

Mr. George Botic
Director
Division of Registration and Inspections
1666 K Street NW, suite 800
Washington, DC 20006

Re: Response to Part I of the Public Company Accounting Oversight Board (PCAOB) Draft Report on the 2019 Inspection of MaloneBailey LLP

Dear Mr. Botic:

We are pleased to provide our response to Part 1 of the PCAOB's draft report on the 2019 inspection of MaloneBailey LLP dated October 30, 2020 (the "Draft Report"). We support the PCAOB inspection process to help us identify areas where we may improve our audit performance. We believe the inspection process is a fundamental mission of the PCAOB and intend to use the process to identify areas where we should improve and enhance our audit quality.

We have evaluated the matters described in Part I of the Draft Report. In that regard, we have considered whether it was necessary to perform additional procedures in accordance with PCAOB rules and auditing standards and, where appropriate, performed such procedures.

We remain committed to improving our audit performance and underlying quality control systems. We appreciate the opportunity to respond to the report and look forward to future constructive dialogue.

Sincerely,

MaloneBailey, LLP

Malone Bailey LLP

9801 Westheimer Road, Suite 1100, Houston, Texas 77042 713.343.4286
Zhongzhou Holdings Financial Center (Tower B) #2205 No. 88, Haide Yi Road, Nanshan District, Shenzhen, P.R. China 518054 86.755.8627.8659
#306-307 Ocean International Center (C Tower) No. 60 Dongsihuan Middle Road, Chaoyang District, Beijing, P.R. China 100025 86.10.5908.1688
www.malonebailey.com