2022 Inspection
M&K CPAS, PLLC

(Headquartered in Houston, Texas)

December 11, 2023

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2022 INSPECTION

In the 2022 inspection of M&K CPAS, PLLC, 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 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 AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 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

	2022	2020
Firm data		
Total issuer audit clients in which the firm was the principal auditor	68	63
Total engagement partners on issuer audit work[1]	3	3
Audits reviewed		
Total audits reviewed	7	6
Audits in which the firm was the principal auditor	7	6
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	5	3
Percentage of audits with Part I.A deficiencies	71%	50%

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR or taking steps to prevent reliance on prior audit reports.

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

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 2022 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.

2022		2020	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	4	**Revenue and related accounts**	6
Debt	2	**Debt**	3
Derivatives	2	**Derivatives**	1
Equity and equity-related transactions	2	**Business combinations**	1
Long-lived assets	1	**Long-lived assets**	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

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

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

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

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

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

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

This classification includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

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

Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). 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 – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Long-Lived Assets**.

Description of the deficiencies identified

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

The firm did not perform any procedures to evaluate the reliability of the information it obtained from external sources that it used to test certain revenue. (AS 1105.04 and .06)

The firm did not perform any procedures to evaluate the terms and conditions of an agreement for certain revenue. (AS 2301.08 and .13) In addition, the firm did not perform any procedures to test the appropriateness of the amount of revenue recognized. (AS 2301.08 and .13)

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

The firm did not perform sufficient procedures to test the estimated useful lives assigned to the issuer's property and equipment because it limited its procedures to comparing the useful lives to information from an external source. Further, the firm did not evaluate the relevance and reliability of the information. (AS 1105.04 and .06; AS 2501.07)

The firm did not perform procedures to evaluate the issuer's conclusion that there were no indicators of potential impairment even though the firm was aware that such conditions existed. (AS 2301.08; AS 2810.03)

Issuer B

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to a **Business Combination**, for which the firm identified a significant risk. This was the firm's initial audit of this issuer.

Description of the deficiencies identified

The firm did not perform sufficient procedures to evaluate whether the issuer recognized an acquisition in accordance with FASB ASC Topic 805, *Business Combinations*, because it did not evaluate whether the assets acquired and liabilities assumed met the definition of a business. (AS 2301.08 and .11)

The firm did not perform sufficient procedures to test the fair value of certain liabilities assumed because it did not perform any procedures to test, or test any controls over, the accuracy and completeness of a report used in its testing. (AS 1105.10) In addition, the firm did not perform any substantive procedures over the amount of certain liabilities assumed. (AS 2301.08)

Audits with a Single Deficiency

Issuer C

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Stock-Based Compensation**, for which the firm identified a significant risk.

Description of the deficiency identified

The firm did not identify and evaluate a departure from GAAP related to the incorrect calculation of stock-based compensation expense. (AS 2810.30 and .31)

Issuer D – Industrials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The firm selected a sample of revenue transactions for testing. The firm did not perform any substantive procedures to test estimates used to recognize revenue and related accounts for certain of these transactions. (AS 2501.07)

Issuer E – Communication Services

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Journal Entries**, for which the firm identified a fraud risk.

Description of the deficiency identified

The firm identified fraud criteria for journal entries. The firm did not apply the criteria to the entire population of journal entries to identify all journal entries that met the criteria. Further, the firm limited its testing of journal entries to a haphazard selection. (AS 2401.61)

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 area below was 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.

We identified the following deficiencies:

- In four of seven 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 certain matters that were communicated to the issuer's audit committee and that related to accounts or disclosures that are material to the financial statements. In these instances, the firm was non-complaint 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.

- In the seven audits reviewed, the engagement team did not take into account certain required factors in determining whether or not certain matters were critical audit matters. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

PART I.C: INDEPENDENCE

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

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

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

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

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

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

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

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.

October 16, 2023

Mr. George R. Botic
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW Washington, DC 20006
United States of America

Dear Mr. Botic,

Re: Response to the Draft Report on the 2022 Inspection of M&K CPAS, PLLC

We are pleased to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") draft report dated September 14, 2023, on the 2022 inspection of certain engagements of M&K CPAS, PLLC ("M&K" or "we"). We continue to support the PCAOB's goal of improving audit quality in order to protect investors and promote public trust through promoting informative, accurate, and independent audit reports.

We conducted a thorough evaluation of the matters identified in the draft report. We respectfully have conveyed to the PCAOB our disagreement with some of the PCAOB's conclusions. Nevertheless, we considered the engagement-specific findings and took appropriate actions we deemed appropriate to enhance our application of PCAOB auditing standards and further strengthen policies. We take the findings described in the PCAOB inspection report seriously, and we are committed to improving our audit quality.

Our firm continues to be steadfast in our dedication to making audit quality our top priority. We appreciate the PCAOB's inspection process as it aids in enhancing our audit performance and improving our internal quality control systems, including monitoring compliance with independence rules.

We remain dedicated to evaluating and improving our system of audit quality control, monitoring audit quality and implementing changes to our policies and practices in order to enhance audit quality. We look forward to continuing to work with the PCAOB regarding the most effective means of achieving these objectives.

Yours sincerely,

M&K CPAS, PLLC

M&K CPAS, PLLC