
2023 Inspection PWR CPA LLP

(Headquartered in Houston, Texas)

December 21, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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(Includes portions of Part II of the full report
that were not included in PCAOB Release No. 104-2024-029)



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2023 INSPECTION

In the 2023 inspection of PWR CPA LLP, 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 one audit of an issuer with a fiscal year ending in 2022. For the 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

The following information provides an overview of our 2023 inspection, which was our first inspection of this firm. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2023
Firm data	
Total issuer audit clients in which the firm was the principal auditor	5
Total engagement partners on issuer audit work ¹	2
Audits reviewed	
Total audits reviewed	1
Audits in which the firm was the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	1
Percentage of audits with Part I.A deficiencies	100%

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

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

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.

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. For the issuer audit 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	
Audit area	Audits reviewed
Goodwill and intangible assets	1
Related party transactions	1
Revenue and related accounts	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), including instances of non-compliance with PCAOB rules related to registration and reporting. 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 on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. 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 – Health Care

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Intangible Assets**, **Related Party Transactions**, and **Journal Entries**.

Description of the deficiencies identified

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

The issuer identified certain impairment indicators and performed an assessment of intangible assets for impairment at year-end. The firm did not perform sufficient substantive procedures to evaluate the

issuer's conclusions regarding these potential indicators of impairment, as its procedures were limited to inquiry of management, reading a memorandum and other information prepared by the issuer, reviewing unsigned memoranda of understanding related to the intangible assets, and obtaining legal confirmations regarding any potential litigation related to the intangible assets. Further, although the firm identified a potential indicator that was excluded from the issuer's assessment, the firm inappropriately concluded that it was not applicable and did not evaluate how the issuer considered it in its assessment. (AS 2301.08 and .11; AS 2810.03)

With respect to **Related Party Transactions**, for which the firm identified a fraud risk:

The firm did not identify and evaluate departures from GAAP related to the issuer's related party transactions. (AS 2410.17; AS 2810.30 and .31)

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

The firm did not consider the characteristics of potentially fraudulent journal entries when identifying and selecting journal entries for testing at one of the issuer's components and instead haphazardly selected entries for testing. Further, the firm did not perform sufficient procedures to test certain of the selected journal entries because it did not examine the underlying support for the entries and, limited its procedures to inquiry of management for one of these entries. (AS 2401.61)

In addition, the firm did not perform any procedures to identify and select journal entries and other adjustments for testing at another one of the issuer's components, without having an appropriate rationale for excluding that component. (AS 2401.61)

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, including instances of non-compliance with PCAOB rules related to registration and reporting. 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. 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 the audit reviewed, the firm did not obtain the engagement quality reviewer’s concurring approval of issuance of the audit report prior to its issuance. In this instance, the firm was non-compliant with AS 1220, *Engagement Quality Review*.
- In the audit reviewed, the firm did not make certain required communications to the issuer’s audit committee related to (1) all of the significant risks identified through its risk assessment procedures, (2) certain critical accounting estimates, and (3) changes to the significant risks that had initially been identified and communicated to the audit committee and the reasons for such changes. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In the audit reviewed, the firm did not inquire of the audit committee about the risks of material misstatement, including fraud risks. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one audit, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer’s ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In this instance, the firm was non-compliant with AS 2415, *Consideration of an Entity’s Ability to Continue as a Going Concern*.
- In the audit 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, or required to be communicated, to the audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, the firm was non-compliant with AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor’s report.
- In one audit, the firm’s audit report did not include certain required language preceding the communication of a critical audit matter. In this instance, the firm was non-compliant with AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.
- The firm omitted required information related to Item 5.1, *Certain Criminal, Civil and Administrative Proceedings*, from its report on Form 1. In this instance, the firm was non-compliant with PCAOB Rule 2101, *Application for Registration*.
- In the audit reviewed and in four other audits, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.
- In one audit, the firm’s report on Form AP omitted 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 I.C: INDEPENDENCE

In the 2023 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.

A. Testing Intangible Assets

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 intangible assets will meet the requirements of AS 2301 and AS 2810. (QC 20.03 and .17)

In one audit,² which is included in Part I.A, the inspection team identified a deficiency related to the firm's substantive testing of intangible assets.

B. Evaluating Conformity with GAAP for Related Party Transactions

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 evaluating whether the issuer's financial statements were presented in conformity with GAAP for related party transactions will meet the requirements of AS 2410 and AS 2810. (QC 20.03 and .17)

In one audit,³ which is included in Part I.A, the inspection team identified deficiencies related to the firm not identifying and evaluating departures from GAAP related to the issuer's related party transactions.

² Issuer A

³ Issuer A

C. Fraud Procedures

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will perform the procedures necessary to comply with AS 2401 related to journal entries. (QC 20.03 and .17)

In one audit,⁴ which is included in Part I.A, the inspection team identified deficiencies related to the firm’s fraud procedures with respect to testing journal entries.

D. Communications with Audit Committees

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will comply with the requirements of AS 1301 and AS 2110. (QC 20.03 and .17)

In one audit,⁵ which is included in Part I.B, the inspection team identified deficiencies related to the firm’s communications with the audit committee.

E. Audit Reports and Critical Audit Matters

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will comply with the requirements of AS 2415 and AS 3101. (QC 20.03 and .17)

In one audit,⁶ which is included in Part I.B, the inspection team identified a deficiency related to the firm’s procedures for determining whether or not matters were critical audit matters. In addition, in that same audit, which is included in Part I.B, the inspection team identified deficiencies related to the firm’s audit report.

F. Auditor Reporting of Certain Audit Participants

The inspection results indicate that the firm’s system of quality control does not provide reasonable assurance that the firm’s personnel will comply with PCAOB Rule 3211. (QC 20.03 and .17)

In five audits,⁷ including the current and prior year audit of one issuer,⁸ all of which are included in Part I.B, the inspection team identified deficiencies related to the firm’s reporting on Form AP.

⁴ Issuer A

⁵ Issuer A

⁶ Issuer A

⁷ Issuers A, B, C, and D

⁸ Issuer A

G. 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 reviewers (EQR) will meet the requirements of AS 1220. (QC 20.03 and .17)

In one audit,⁹ which is included in Part I.A and Part I.B, the inspection team identified deficiencies in areas that the EQR was required to evaluate. In this audit, the EQR did not identify a deficiency in an area in which the engagement team had identified a significant risk, including in some cases a fraud risk. In addition, in this audit, the EQR did not identify a deficiency in the audit report.

In one audit,¹⁰ which is included in Part I.B, the EQR did not provide concurring approval of issuance of the audit report prior to its issuance.

H. Compliance with PCAOB Filing Requirements

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm and its personnel will comply with PCAOB filing requirements. (QC 20.03 and .17)

The inspection team identified a deficiency, which is included in Part I.B, related to the firm's reporting on Form 1.

⁹ Issuer A

¹⁰ 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.

PWR CPA
Certified Public Accountants

November 17, 2023

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

Firm ID Number 6686

Response to Report on 2023 Inspection of PWR CPA

Dear Mr. Botic,

We appreciate the opportunity to provide a public response to the 2023 draft Inspection Report of PWR CPA. PWR CPA is committed to performing high quality audits and in that effort, we designed our quality control and monitoring system for continuous improvement. We appreciate the role played by the PCAOB in improving audit quality and we utilize the inspection process as a means of driving improvement. The PCAOB performed a thorough inspection and were professional throughout the process.

This is the first inspection of PWR CPA by the PCAOB's staff and it has proven to be a valuable process, enhancing both our audit performance and our overall quality control system.

We respect the PCAOB's inspection process and understand that judgements are involved in performing audits. We have evaluated the matters identified by the PCAOB inspection and we have taken and are taking actions to address the engagement-specific findings in a manner consistent with both PCAOB auditing standards and our policies. We have not yet completed such work, and as such, we have not yet concluded the extent of changes that may result from the conclusion of work being performed. We are taking appropriate actions under both the PCAOB standards and our policies, including all necessary steps to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. In addition, we are taking corrective actions to address non-engagement-specific findings that would result in improvement in the Firm's Quality Control.

We are in the process of making the necessary corrections to our procedures and training to prevent any future matters. The Firm has resigned from all public company audit engagements and will continue to evaluate and will not resume audits of public companies until all corrective actions have been taken.

We remain committed to improving our audit practice and being responsive in areas identified by the PCAOB for improvement.

Very truly yours,

PWR CPA, LLP

PWR CPA, LLP

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