2024 Inspection
MSPC, Certified Public Accountants and Advisors, A Professional Corporation

(Headquartered in Cranford, New Jersey)

November 21, 2024

PCAOB

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2024 INSPECTION

In the 2024 inspection of MSPC, Certified Public Accountants and Advisors, A Professional Corporation, 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 two audits of issuers with fiscal years ending in 2022. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2024 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 2024 INSPECTION AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2024 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

	2024	2021
Firm data		
Total issuer audit clients in which the firm was the principal auditor	6	5
Total engagement partners on issuer audit work[1]	3	3
Audits reviewed		
Total audits reviewed	2	1
Audits in which the firm was the principal auditor	2	1
Audits with Part I.A deficiencies	2	1
Percentage of audits with Part I.A deficiencies	100%	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 internal control over financial reporting (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 2024 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.

2024		2021	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	2	**Revenue and related accounts**	1
Long-lived assets	1	**Long-lived assets**	1
Cash and cash equivalents	1		
Goodwill and intangible 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 instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes instances where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

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

Audits with Multiple Deficiencies

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

Audits with a Single Deficiency

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

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

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

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

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

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

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Accounts Receivable**, and **Intangible Assets**. The firm's internal inspection program had inspected this audit and reviewed these areas but did not identify the deficiencies below.

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 whether the issuer's recognition of certain revenue was in conformity with FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2301.08 and .13)

With respect to certain revenue recognized over time, the firm did not evaluate whether there were significant judgments used by the issuer in determining the timing of satisfaction of performance obligations and whether all applicable required disclosures were made. (AS 2301.08 and .13)

The firm sent positive confirmation requests to a sample of customers as part of its testing of revenue. The following deficiencies were identified:

- The firm did not perform procedures to determine whether certain of the confirmation requests were directed to third parties who were knowledgeable about the information to be confirmed. (AS 2310.26)

- The firm received an electronic response to one confirmation request. The firm did not consider performing procedures to address the risks associated with an electronic response, such as verifying the source and contents of the confirmation response. (AS 2310.29)

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

The issuer recorded an allowance for expected credit losses related to accounts receivable, which was based, in part, on significant assumptions regarding default rates. The issuer assigned credit rating categories to each receivable based on whether or not the customer had made payments and assigned a default rate to each customer's receivable based on that assigned category, which was based on information from an external source. The firm's approach to test the allowance for expected credit losses was to test the issuer's process. The following deficiencies were identified:

- The firm did not perform procedures to evaluate the reasonableness of the significant assumption used by the issuer related to default rates, beyond comparing the rates to data from the external source that the issuer used to develop the rates. (AS 2501.16) Further, the firm did not perform procedures to evaluate the relevance of the credit rating categories from the external source that the issuer used in determining the default rates. (AS 1105.04 and .06)

- The firm did not perform procedures to test, or test any controls over, the accuracy of certain information used by the issuer in calculating a component of its allowance for expected credit losses. (AS 1105.10)

- The firm did not perform procedures, beyond comparison to an issuer-prepared schedule, to test the issuer's presentation of certain items related to accounts receivable and the allowance for expected credit losses in the statement of cash flows. (AS 2301.08)

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

The issuer reported intangible assets and evaluated them for impairment using undiscounted cash flow analyses. The firm's approach to test the issuer's impairment analyses was to test the issuer's process. The firm did not sufficiently evaluate whether the method used by the issuer to develop the impairment analyses was in conformity with GAAP as it did not evaluate whether the method was in conformity with certain applicable requirements of FASB ASC Topic 350, *Intangibles—Goodwill and Other,* and FASB ASC Topic 360, *Property, Plant, and Equipment*. (AS 2501.10) In addition, the firm did not perform procedures, beyond inquiry, to evaluate the reasonableness of significant assumptions related to the undiscounted cash flow projections used by the issuer to develop the impairment analyses. (AS 2501.16)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Long-Lived Assets**, and **Evaluating Control Deficiencies**.

Description of the deficiencies identified

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

The firm selected for testing a control that consisted of management's review of a reconciliation related to revenue. The firm did not (1) evaluate the specific 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) and (2) identify and test any controls over the accuracy and completeness of the data used in the operation of the control. (AS 2201.39)

The firm selected for testing a control over sales invoices. The firm did not perform procedures to test, or identify and test controls over, the completeness of the issuer-produced sales invoice listing used in its testing of the control. (AS 1105.10)

With respect to **Long-Lived Assets**, for which the firm identified a significant risk:

The firm selected for testing a review control over purchases and disposals of long-lived assets. The firm did not test the aspect of this control related to the control owner's review of the summary of activity or transaction details supporting the control. (AS 2201.42 and .44)

The issuer developed undiscounted cash flows to evaluate certain long-lived assets for potential impairment. The following deficiencies were identified:

- The firm did not perform procedures to evaluate the reasonableness of significant assumptions related to daily revenue rates, beyond comparing the rates used by the issuer to rates obtained from the external source that the issuer used to develop the assumptions. (AS 2501.16) In addition, the firm did not perform procedures to evaluate the relevance and reliability of the rates obtained from the external source. (AS 1105.04 and .06)

- The firm did not perform sufficient procedures to evaluate the reasonableness of significant assumptions related to certain expense rates, because it limited its procedures to comparing the rates to the actual operating expenses during the year and the issuer's budget, without evaluating whether the issuer had a reasonable basis for the assumptions in the budget. (AS 2501.16)

With respect to **Evaluating Control Deficiencies**:

The firm identified control deficiencies related to significant accounts and in areas of significant risk. The firm did not provide a reasonable basis to support its conclusion that the magnitude of the potential misstatements resulting from the control deficiencies was not material. (AS 2201.62)

The firm identified deficiencies in the design and operating effectiveness of controls related to revenue and long-lived assets. The firm identified and tested two review controls that it believed would mitigate the deficiencies ("compensating controls"). The following deficiencies were identified:

- For one control, the firm did not perform procedures to evaluate the review procedures that the control owner performed to be able to conclude that the compensating control mitigated the identified control deficiency. (AS 2201.68) In addition, the firm did not identity and test any controls over the accuracy and completeness of the supporting documentation used in the performance of this control. (AS 2201.68)

- For another control, the firm did not identify that this control did not address the identified control deficiencies related to revenues and long-lived assets. (AS 2201.68)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

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

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In both audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform procedures to evaluate the reliability of the population of journal entries identified by an external service provider that met the firm's fraud criteria. In these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.

- In one of two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud for certain subsidiaries, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In this instance, the firm was non-compliant with AS 1105, *Audit Evidence*.

- In one of two audits reviewed, the firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of two audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee prior to the issuance of the auditor's report. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805*, Management Representations.*

- In one audit, the firm did not communicate, in writing, to management and the audit committee all significant deficiencies identified during the audit. In this instance, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In one audit, the firm did not communicate to management, in writing, all control deficiencies identified during the audit and inform the audit committee when such communication had been made. In this instance, the firm was non-compliant with AS 2201*, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements.*

- In one audit, the firm did not modify its audit report to state that a material weakness had been identified but not included in management's assessment. In addition, in this audit, the firm did not communicate in writing to the audit committee that the material weakness was not disclosed or identified as a material weakness in management's assessment. In these instances, the firm was non-compliant with AS 2201, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In both audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one of two 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, 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 of two audits reviewed, the firm's communication of certain critical audit matters in the audit report included language that was inconsistent with information in the firm's audit documentation. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In one audit, the firm did not file its report on Form AP by the relevant deadline. In addition, in this audit, the firm's report on Form AP included inaccurate information related to the participation in the audit by an other accounting firm. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

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

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it is engaged to render audit or non-audit services to an issuer or its subsidiaries without that engagement having been pre-approved by the audit committee. In two audits reviewed, we identified three instances for one issuer in which the firm could provide no persuasive evidence of the necessary audit committee pre-approval.

Firm-Identified

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.

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 Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.