
2024 Inspection

Hudgens CPA, PLLC

(Headquartered in Houston, Texas)

December 19, 2024

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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

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(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2025-021)



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2024 INSPECTION

In the 2024 inspection of Hudgens CPA, 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 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.

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

The following information provides an overview of our 2024 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

	2024
Firm data	
Total issuer audit clients in which the firm was the principal auditor	5
Total engagement partners on issuer audit work ¹	1
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 2024 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.

2024	
Audit area	Audits reviewed
Revenue and related accounts	1
Certain 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 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

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue, Certain Assets, and Journal Entries**.

Description of the deficiencies identified

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

The issuer recognized several types of revenue. The following deficiencies were identified:

- The firm did not perform procedures to test, or identify and test any controls over, the completeness of a report from which it made its selections to test two types of revenue. (AS 1105.10)
- The firm selected key item transactions to test these two types of revenue. The firm did not perform procedures, beyond performing cut-off procedures, to test the remaining population of revenue transactions to address the assessed risk of material misstatement. (AS 1105.27; AS 2301.08 and .13)
- The firm did not perform sufficient procedures to evaluate whether the issuer's accounting for one of these types of revenue as the principal rather than as an agent was appropriate, because the firm concluded that the issuer had the ability to direct and control the goods or services but it did not perform any procedures to support this conclusion. (AS 2301.08 and .13)
- The firm did not perform procedures to evaluate the issuer's determination of the transaction price for a sample of transactions for a third type of revenue. (AS 2301.08 and .13)

With respect to **Certain Assets**:

The issuer engaged a valuation specialist to determine the fair value of certain assets. The following deficiencies were identified:

- The firm did not perform any procedures to evaluate the reasonableness of significant assumptions developed by the company's specialist. (AS 1105.A8b)
- The firm did not perform any procedures to evaluate the relevance and reliability of data from sources external to the issuer that were used by the company's specialist in developing significant assumptions. (AS 1105.A8a)
- The firm did not perform procedures, beyond inquiry, to evaluate the reasonableness of a significant assumption developed by the issuer. (AS 2501.16)

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

The firm identified fraud criteria for journal entries. The firm did not perform sufficient procedures to test the journal entries that met the criteria, because it limited its procedures to certain journal entries without having an appropriate rationale. (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. 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 added audit documentation subsequent to the 45-day period following the report release date and did not indicate the reason for adding it. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.
- In the audit reviewed and two other audits, the individual who performed the engagement quality review was an employee of the firm who was not a partner or an individual in an equivalent position. In these instances, the firm was non-compliant with AS 1220, *Engagement Quality Review*.
- In the audit reviewed, the firm did not inquire of others within the company 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 the audit reviewed, the firm did not identify and assess the risks of material misstatement related to certain significant accounts and disclosures. In these instances, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one audit, the firm's communication of a critical audit matter 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 four audits, the firm did not file one or more reports 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*.

PART I.C: INDEPENDENCE

In the 2024 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 Revenue

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 revenue will meet the requirements of AS 1105 and AS 2301. (QC 20.03 and .17)

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

B. Testing Estimates, Including Fair Value Measurements, When Using the Work of a Company's Specialist

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 estimates, including fair value measurements, when using the work of a company's specialist, will meet the requirements of AS 1105 and AS 2501. (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's testing of estimates, including fair value measurements, when using the work of a company's specialist.

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 a deficiency related to the firm's fraud procedures with respect to testing journal entries.

D. 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 3101 with respect to critical audit matters. (QC 20.03 and .17)

In one audit,⁵ which is included in Part I.B, the inspection team identified a deficiency related to the communication of a critical audit matter in the firm's audit report.

E. Engagement Quality Review

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

In one audit,⁶ which is included in Part I.A, 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 fraud risk.

In three audits,⁷ all of which are included in Part I.B, the individual who performed the engagement quality review was an employee of the firm who was not a partner or an individual in an equivalent position.

F. Use of an External Digital Confirmation Platform

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the work performed by engagement personnel who use an external digital platform to

⁴ Issuer A

⁵ Issuer A

⁶ Issuer A

⁷ Issuers A, B, and C

communicate audit confirmation requests and obtain responses will meet the requirements of AS 2310 related to maintaining control over confirmation requests and responses. (QC 20.03 and .17)

The firm did not perform any procedures to support reliance on this digital platform's ability to maintain control over the confirmation requests and responses.

G. Practice Monitoring

The inspection results indicate that the firm's system of quality control does not provide reasonable assurance that the firm is effectively monitoring its accounting and auditing practice. (QC 20.20)

Although the firm's policies and procedures for monitoring its accounting and auditing practice require the performance of internal inspections, the firm has not performed an internal inspection since its registration with the Board.

H. 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 four audits,⁸ including the current and prior year audit of one issuer,⁹ all of which are included in Part I.B, the inspection team identified deficiencies related to the firm's reporting on Form AP.

I. Compliance with Certain Audit Documentation Requirements

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 1215. (QC 20.03 and .17)

In one audit,¹⁰ which is included in Part I.B, the inspection team identified a deficiency related to the firm's addition of audit documentation subsequent to the 45-day period following the report release date.

⁸ Issuers A, B, and D

⁹ Issuer D

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

