2023 Inspection MaloneBailey, LLP

(Headquartered in Houston, Texas)

February 27, 2025

PCAOB PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2023 INSPECTION

In the 2023 inspection of MaloneBailey, 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 eight 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.

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 AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2023 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

	2023	2021
Firm data		
Total issuer audit clients in which the firm was the principal auditor	82	72
Total engagement partners on issuer audit work[1]	6	5
Audits reviewed		
Total audits reviewed	8	7
Audits in which the firm was the principal auditor	8	7
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	1
Audits with Part I.A deficiencies	6	6
Percentage of audits with Part I.A deficiencies	75%	86%

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 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.

2023		2021	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	7	**Revenue and related accounts**	5
Cash and cash equivalents	2	**Cash and cash equivalents**	5
Business combinations	2	**Business combinations**	2
Equity and equity-related transactions	2	**Equity and equity-related transactions**	2
Other investments	1	**Other investments**	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 – Information Technology

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Digital 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 issuer used a customized application for processing and recording transactions related to revenue. The firm tested the design and operating effectiveness of information technology general controls (ITGCs) and certain automated and IT-dependent manual controls over this application in order to rely on the completeness and accuracy of data and reports produced by the application and used by the firm in its substantive procedures. The following deficiencies were identified:

- The firm selected for testing controls over the review and approval of program changes, but did not evaluate whether the controls were designed to address the risk that developers have the ability to develop and promote changes to production environments. (AS 2301.19)

- The firm selected for testing controls over change management but did not perform procedures to determine whether the population of changes from which it made its selections for testing represented the complete population of changes made to this application. (AS 1105.10)

- The firm selected for testing certain automated and IT-dependent manual controls over this revenue. The firm's approach to testing these controls depended on effective ITGCs, including controls over change management. As a result of the deficiencies in the firm's testing of the controls discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2301.18)

- The firm did not identify and test controls that addressed the issuer's evaluation of the reliability of external information used in the operation of certain controls the firm selected for testing. (AS 2301.16)

The firm did not perform procedures to test the issuer's segment reporting disclosures related to revenue, beyond obtaining an issuer-prepared schedule. (AS 2301.08)

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

The firm used certain information produced by the issuer's service organization to test digital assets but did not perform procedures that addressed the accuracy and completeness of this data. (AS 2301.08 and .11) In addition, the firm used certain other external information to test digital assets but did not perform procedures to evaluate the reliability of the information beyond obtaining an understanding of the source of the data. (AS 1105.04 and .06)

Issuer B – Information Technology

Type of audit and related areas affected

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

Description of the deficiencies identified

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

The issuer used a customized application for processing and recording transactions related to revenue. The firm tested the design and operating effectiveness of ITGCs and certain automated controls over this application in order to rely on the completeness and accuracy of data and reports produced by the application and used by the firm in its substantive procedures over certain revenue. The firm determined that certain ITGCs were not effective at year end. The following deficiencies were identified:

- The firm did not evaluate the severity of the ITGC deficiencies and the effect on its control risk assessment. (AS 2301.34)

- The firm's approach to testing certain automated controls depended on effective ITGCs. As a result of the control deficiencies that the firm identified, as discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2301.18)

With respect to **Restricted Cash**:

The firm did not perform procedures to test certain disclosures related to the nature of restrictions for restricted cash, beyond reading the issuer's prior year financial statements. (AS 2301.08)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and a **Business Combination**.

Description of the deficiencies identified

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

The firm selected a sample of transactions to test revenue. The firm did not perform procedures, other than reviewing certain information on selected invoices, to test whether the delivery of services had occurred prior to the issuer's recognition of revenue for certain sampled transactions. (AS 2301.08 and .13) In addition, the firm selected its sample of transactions from three of the four types of revenue. The firm did not perform any procedures to test the fourth type of revenue. (AS 2315.24)

With respect to a **Business Combination**:

During the year, the issuer acquired a business that resulted in an acquired intangible asset. The firm did not perform any procedures to test, or identify and test controls over, the accuracy and completeness of issuer-produced data it used to evaluate the reasonableness of a significant assumption. (AS 1105.10) In addition, the firm did not identify and evaluate the issuer's omission of certain disclosures related to this business combination that were required by FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

Issuer D – Information Technology

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.

Description of the deficiencies identified

During the year, the issuer acquired a business and engaged a specialist to determine the fair value of an acquired intangible asset. The following deficiencies were identified:

- The firm did not perform sufficient procedures to evaluate the reasonableness of certain significant assumptions developed by the issuer because it limited its procedures to comparing the assumptions to industry information. Further, the firm did not perform any procedures to evaluate the reliability of the industry information. (AS 1105.04 and .06; AS 2501.16)

- The firm did not perform sufficient procedures to evaluate the reasonableness of another significant assumption developed by the issuer because it limited its procedures to comparing the assumption to industry information without evaluating the significant difference between the assumption and the industry information. Further, the firm did not evaluate the reliability of the industry information. (AS 1105.04 and .06; AS 2501.16)

- The firm did not perform any procedures to test the accuracy and completeness of certain issuer-produced data used by the company's specialist to develop a significant assumption. (AS 1105.A8a)

- The firm did not perform any procedures to evaluate the reliability of industry information it used to evaluate the reasonableness of an assumption developed by the company's specialist. (AS 1105.04 and .06)

Issuer E – Information Technology

Type of audit and related area affected

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

Description of the deficiencies identified

The firm tested the design and operating effectiveness of certain ITGCs over the issuer's general ledger and other systems in order to rely on the accuracy and completeness of underlying data produced by the issuer that was used in the firm's substantive testing of certain revenue. The firm identified deficiencies in its testing of certain ITGCs. The following deficiencies were identified:

- The firm identified compensating controls but did not perform any procedures to test the design and operating effectiveness of those controls during the entire period of reliance. (AS 2301.16)

- The firm selected for testing certain automated and IT-dependent manual controls over this revenue. The firm's approach to testing these controls depended on effective IT general controls (ITGCs). As a result of the deficiency in the firm's testing of the controls discussed above, the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2301.18)

The firm did not identify and evaluate the issuer's omission of certain disclosures required by FASB ASC Topic 606, *Revenue from Contracts with Customers*. (AS 2810.30 and .31)

Issuer F – Information Technology

Type of audit and related area affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk. The firm's internal inspection program had inspected this audit and reviewed this area but did not identify the deficiencies below.

Description of the deficiencies identified

The issuer's customer determined the amount of consideration for the performance obligations at the time the issuer satisfied its obligations. The firm did not perform procedures to assess whether (1) the issuer's determination of transaction price used to recognize revenue was appropriate and (2) the issuer satisfied its performance obligations prior to the recognition of revenue, beyond reading the issuer's revenue recognition memo and confirming, with the issuer's customer, the payments made to the issuer. (AS 2301.08 and .13)

The firm's substantive procedures to test revenue included substantive analytical procedures. The firm used external data and data derived from the recorded amounts of revenue to develop its expectation. The firm did not evaluate whether the external data was sufficiently reliable for purposes of achieving its audit objective, beyond obtaining an understanding of the source of the data. (AS 2305.16) In addition, the firm did not evaluate whether the data derived from recorded amounts of revenue was sufficiently relevant and reliable for the purpose of achieving its audit objective. (AS 1105.04 and .06; AS 2305.16)

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 two of eight audits reviewed, the firm provided certain services to the issuer but did not document that the audit committee had approved the engagement before the issuer engaged the firm to provide the services. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In four of eight audits reviewed, the firm did not make certain required communications to the audit committee related to the name and location of an other accounting firm and/or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of eight audits reviewed, the firm did not make a required communication to the audit committee related to critical accounting estimates. In addition, in two other audits reviewed, the firm did not make a required communication to the audit committee related to critical accounting estimates in a timely manner. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of eight audits reviewed, the firm did not hold a discussion among the key engagement team members about the potential for material misstatement due to fraud. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In five of eight audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In three of eight 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 two of eight audits reviewed, and in one other audit, the firm's audit report included inaccurate information regarding the opinion city and state, or city and country. 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.*

- In two of eight 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 audit committee and that related to accounts or disclosures that were material to the financial statements. 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.

- In two of eight audits reviewed, the engagement team did not take into account certain required factors in determining whether or not one or more 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.

- In one of eight audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants.*

- In four of eight audits reviewed, one or more of the firm's reports on Form AP omitted 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

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.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

maloneBailey LLP
CERTIFIED PUBLIC ACCOUNTING FIRM

January 15, 2025

Ms. Christine Gunia, Director
Division of Registration and Inspections
1666 K Street NW, suite 800
Washington, DC 20006

Re: Response to Part I of the Draft Report on the 2023 Inspection of MaloneBailey LLP

Dear Ms. Gunia:

MaloneBailey LLP is pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB") draft report on the 2023 inspection of MaloneBailey LLP dated December 17, 2024 (the "Draft Report"). We recognize the critical role the PCAOB's inspection process plays in promoting high-quality audits and enhancing public confidence in the capital markets.

We have carefully evaluated the matters described in the Draft Report. In alignment with PCAOB rules and auditing standards, we assessed whether additional procedures were necessary to address the observations and, where appropriate, have performed such procedures to ensure the accuracy and integrity of our work.

While we acknowledge the areas for improvement identified in the Draft Report, we are pleased that the PCAOB's inspection process aligns with our internal focus on maintaining a robust quality control framework. We value the insights gained through this collaborative process and will use them to further strengthen our commitment to audit quality.

We appreciate the opportunity to engage in this constructive dialogue with the PCAOB and look forward to our ongoing collaboration as we strive to meet and exceed the expectations of our stakeholders.

Sincerely,

MaloneBailey, LLP

Malone Bailey LLP

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