2024 Inspection Turner, Stone & Company, L.L.P.

(Headquartered in Dallas, Texas)

April 28, 2025

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2024 INSPECTION

In the 2024 inspection of Turner, Stone & Company, L.L.P., 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 three audits of issuers with fiscal years generally ending in 2023. 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	2022
Firm data		
Total issuer audit clients in which the firm was the principal auditor	27	29
Total engagement partners on issuer audit work[1]	6	3
Audits reviewed		
Total audits reviewed	3	3
Audits in which the firm was the principal auditor	3	3
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	3	3
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 ICFR, or taking steps to prevent reliance on prior audit reports.

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

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Our 2024 inspection procedures involved one audit for which the issuer, unrelated to our review, restated its financial statements to correct a misstatement and the firm revised and reissued its report on the financial statements.

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		2022	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Revenue and related accounts	3	**Revenue and related accounts**	1
Business combinations	2	**Business combinations**	1
Other investments	1	**Derivatives**	1
		Goodwill and intangible assets	1
		Expenses	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 and Deferred Revenue**, **Accounts Receivable**, a **Business Combination**, and **Journal Entries**. The firm's internal inspection program had inspected this audit and reviewed certain of these areas and identified the deficiencies below in the related areas reviewed.

Description of the deficiencies identified

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

The firm's approach to testing certain revenue included reliance on controls. The firm did not identify and test controls over the accuracy and completeness of system reports that the issuer used in the operation of its controls that the firm selected for testing. (AS 2301.16) The sample size the firm used in its substantive procedures to test this revenue was too small to provide sufficient appropriate audit evidence because this procedure was designed based on a level of control reliance that was not supported due to the deficiency described above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The firm did not perform any procedures to examine a material adjustment the issuer made to revenue during the course of preparing the financial statements. (AS 2301.41)

The firm did not perform any procedures to test, or identify and test controls over, as discussed above, the accuracy and completeness of a report used by the firm to test certain deferred revenue. (AS 1105.10)

With respect to **Accounts Receivable**:

The firm selected a sample of invoices to test accounts receivable. The firm did not perform sufficient procedures to test certain invoices because the firm limited its procedures to reviewing the invoice and inquiry of management. (AS 2301.08)

The firm did not perform any procedures to test, or identify and test controls over, the accuracy and completeness of certain reports it used to test the allowance for doubtful accounts. (AS 1105.10)

With respect to a **Business Combination**:

During the year, the issuer acquired a business and engaged an external specialist to assist in determining the fair value of the consideration and intangible assets. The following deficiencies were identified:

- The firm did not test the existence, completeness, accuracy, and fair value of the tangible assets acquired and liabilities assumed as of the acquisition date. (AS 2301.08; AS 2501.07)

- The firm did not perform procedures to test the fair value of the intangible assets and certain of the paid consideration, beyond obtaining the draft report from the company's specialist. Further, the firm did not perform procedures with respect to its use of the work of the company's specialist as audit evidence, beyond testing certain terms related to the paid consideration and performing certain recalculations. (AS 1105.A1 - .A10; AS 2501.07)

- The firm did not identify and evaluate a departure from GAAP related to the issuer's omission of a disclosure related to this business combination required by FASB ASC Topic 805, *Business Combinations*. (AS 2810.30 and .31)

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

The firm did not consider fraud characteristics in identifying and selecting journal entries and other adjustments for testing. (AS 2401.61)

Issuer B – Energy

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. The firm did not identify and evaluate a departure from GAAP related to the issuer's valuation of the acquiree's investment in the acquirer. (AS 2810.30)

Unrelated to our review, the issuer reevaluated its accounting for this acquisition and concluded that a material misstatement existed that had not been previously identified. The issuer subsequently corrected this misstatement in a restatement of its financial statements, and the firm revised and reissued its report on the financial statements.

In addition, the firm did not identify and evaluate a departure from GAAP related to the issuer's omission of a disclosure related to this business combination required by FASB ASC Topic 805. (AS 2810.30 and .31)

Audits with a Single Deficiency

Issuer C

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to an **Investment**.

Description of the deficiency identified

The issuer performed a qualitative assessment of impairment of an investment and concluded that it was not impaired. The firm did not perform procedures, beyond inquiry, to test the accuracy of certain issuer-produced information included in the assessment to support the issuer's conclusion. (AS 1105.10)

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 one of three audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform 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 three audits reviewed, the firm did not prepare an engagement completion document. In addition, in this audit, the firm deleted or discarded audit documentation after the documentation completion date. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In two of three audits reviewed, the firm did not include all of the required information in its engagement completion document. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In one of three audits reviewed, the firm did not make a required communication to the audit committee related to an overview of the overall audit strategy. In addition, in this audit, the firm did not make a required communication to the entire audit committee related to the results of the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of three audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In another audit reviewed, the firm did not provide a copy of the management representation letter to the entire audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.

- In one of three audits reviewed, the firm did not identify and assess the risks of material misstatement related to certain significant accounts and disclosures. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In one of two audits reviewed, the engagement team performed any procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include a matter that was 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 three audits reviewed, the firm's report on Form AP included inaccurate information related to the engagement partner name and corresponding Partner ID. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

- In one of three 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*.

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 an instance 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 three audits reviewed, we identified one instance 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 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.

Your Vision Our Focus

March 20, 2025

Ms. Christine Gunia
Director - Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Response to the Draft Report on the 2024 Inspections of Turner, Stone & Company, L.L.P.

Dear Ms. Gunia:

Turner, Stone & Company, L.L.P. (the "Firm") is pleased to provide our response to Part I of the Public Company Accounting Oversight Board's (the "PCAOB") Draft Report on the 2024 inspection of Turner, Stone & Company, L.L.P. (the "Report").

Performing high-quality audits is our top priority at the Firm. The Firm values and respects the PCAOB's inspection process, through conversations with the inspectors and formal communications help the Firm identify areas where we can continue to improve and strengthen our system of quality control standards and improve the quality of audits for the benefit of investors, stakeholders and capital markets in general. We are committed to full cooperation with the PCAOB and value the significant role the PCAOB plays in improving audit quality and protecting investors.

We have reviewed the observations identified in Part I of the Report and have taken the appropriate steps to address the observations in a manner consistent with PCAOB standards, SEC and PCAOB rules, as well as our own policies and procedures.

We remain dedicated to evaluating and improving our system of quality controls, including monitoring audit quality and enhancing the skillset of our team members through relevant trainings. We understand our responsibility to investors, stakeholders and capital markets. We appreciate the opportunity to respond to the Report and welcome the opportunity to discuss the additional steps the Firm has taken to improve our system of quality control standards.

Very truly yours,

Turner. Stone and Company. L.L.P

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