1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Report on

2010 Inspection of Madsen & Associates CPAs, Inc.
(Headquartered in Salt Lake City, Utah)

Issued by the

Public Company Accounting Oversight Board

June 28, 2012

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

PCAOB RELEASE NO. 104-2012-189

Public Company Accounting Oversight Board

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

PCAOB Release No. 104-2012-189

2010 INSPECTION OF MADSEN & ASSOCIATES CPAS, INC.

In 2010, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Madsen & Associates CPAs, Inc.[1/] ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.[2/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[3/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Firm has issued audit reports under the names of Madsen & Associates, CPA's Inc.; Madsen & Associates CPA's, Inc.; and Madsen & Associates CPA's Inc.

2/ 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 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 at all. 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.

3/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 16, 2010 to August 26, 2010. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	2 (Salt Lake City, Utah and Hong Kong Special Administrative Region of the People's Republic of China)
Ownership structure	Corporation
Number of partners	1
Number of professional staff[4/]	4
Number of issuer audit clients[5/]	72

[4/] "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

[5/] The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements and internal control over financial reporting ("ICFR") of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[6/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[7/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[8/] Depending upon the circumstances, compliance with these standards may

---

[6/] This focus on weaknesses and deficiencies necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

[7/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[8/] See AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over* require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of nine issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies. Those deficiencies included a failure by the Firm to identify or appropriately address an error in the issuer's application of GAAP that appeared likely to be material to the issuer's financial statements. In addition, the deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9 and Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a

---

Financial Reporting That is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.

procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

The deficiencies identified in five of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies were –

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the classification of debt;

(2) the failure, in two audits, to perform sufficient audit procedures related to revenue;

(3) the failure to perform sufficient audit procedures related to accounts receivable;

(4) the failure, in two audits, to perform sufficient audit procedures to test fair values used to account for business combinations;

(5) the failure to perform sufficient audit procedures to test accounts payable and advance from shareholder;

(6) the failure to perform audit procedures to test the accounting for and disclosure of a settlement agreement related to an accounts payable balance; and

(7) the failure to perform sufficient audit procedures to test administrative expenses.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO 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, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[9/]

[9/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

Madsen & Associates CPA's, Inc.
684 EAST VINE STREET #3
MURRAY, UTAH 84107
TELEPHONE (801) 268-2632
FAX (801) 262-3978
madsencpas@gmail.com

TED A. MADSEN, CPA
DAVID L. MADSEN, CPA

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

April 20, 2012

Ms. Helen A. Munter
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Response to Part I of Draft Report on 2010 Inspection

Dear Ms. Munter:

We are pleased to provide our response to the Public Company Accounting Oversight Board's Draft Report on the 2010 Inspection of Madsen & Associates CPA's, Inc. We support the inspection process and appreciate the professional manner in which the Inspection was conducted and we believe that the Board's comments and observations will assist us in improving the quality of our audits.

We are committed to enhancing the quality of our audits and have thoroughly reviewed and evaluated the comments set forth in Part I – Inspection Procedures and Certain Observations of the Draft Report. We believe that many of the observations noted by the Inspection team reflect the fact that professional judgments are involved in the auditing process as well as in the inspection process. Although we do not agree in all instances with the characterization by the inspection team in the Draft Report of our audit work and related documentation, in most instances we did perform additional procedures in response to the inspection findings and we are currently assessing the need to perform any additional procedures with regards to these findings.

In reviewing and evaluating the matters and deficiencies identified by the Inspection team, we have considered and will continue to consider if it is necessary to perform additional auditing procedures in accordance with AU 390, Consideration of Omitted Procedures After the Report Date.

We have listed below each of the deficiencies listed by the inspection team in Part I of the Draft Report and have issued our response:

1) The firm failed to identify, or address appropriately, departures from GAAP relating to the disclosures of related party transactions and sales to such related party.

The sales were not made to a related party of the Company but all of the sales were made to a single customer. The sales were made in the normal and ordinary course of business. The firm submits that there was no omission of the required disclosures surrounding related party transactions as these sales were not to a related party. However, the Company did not disclose that the sales were made to a single customer. We have considered this omission in accordance with AU 390 Consideration of Omitted Procedures After the Report Date, including discussing this matter with management of the Company and the Company will include this disclosure in the financial statements of the Company prospectively.

2) The firm's failure to identify, or address appropriately, a potentially material misstatement in the audited financial statements concerning the classification of debt.

The firm was provided information, prior to the issuance of the audit opinion that indicated that the debt was appropriately classified as long term as the due date of the note was extended to beyond 12 months from the balance sheet date. The firm considered AU 390 Consideration of Omitted Procedures After the Report Date and the firm concluded that the classification of the debt in the financial statements was correct and there was no adjustment made to the financial statements or to our previously issued audit opinion.

3) The firm's failure to identify, or address appropriately, a potentially material misstatement in the audited financial statements concerning the non-recognition of imputed interest on debt.

The firm disagrees with this finding in that the Company did not make related party loans. In this instance, a Company officer/shareholder made advances to the Company and paid expenses on behalf of the Company. The Company recorded these amounts as Indebtedness to related parties. The Company did not enter into any loan or note agreements with this individual. These amounts were advances and the Company disclosed these amounts owed as indebtedness to related parties. As such, there should not be any imputed interest on this debt as the amounts in the financial statements represent advances from an officer/shareholder.

4) The failure, in two audits, to perform sufficient audit procedures related to revenue.

The firm maintains that the audit procedures employed by the firm surrounding the testing of revenues were adequate. In one of the instances, the firm has concluded that sufficient testing of revenues was adequate but the documentation regarding the extent and nature of the testing was not sufficient in the final audit documentation. The firm has now documented the nature and extent of that testing. The firm has considered the Inspection team's findings and has considered AU 390 Consideration of Omitted Procedures After the Report Date.

5) The failure to perform sufficient audit procedures related to accounts receivable.

The firm maintains that the audit procedures employed by the firm surrounding the testing of accounts receivable were adequate. However, the firm has performed additional procedures following the guidelines of AU 390, Consideration of Omitted Procedures After the Report Date. The firm performed additional testing of the accounts receivable balances and reviewed subsequent payments to determine the accuracy of the accounts receivable balance at the report date. The firm concluded that the accounts receivable balance was fairly stated at the report date and that no changes to the financial statements were required.

6) The failure, in two audits, to perform sufficient audit procedures to test fair values used to account for business combinations

The firm maintains that in both of these audits sufficient audit procedures were performed to test the fair values used in the accounting for these business combinations. In one of the instances, the firm has concluded that the procedures performed were not adequately documented in the final audit documentation. The firm has now documented the nature and extent of that testing. The firm has considered the guidelines of AU 390, Consideration of Omitted Procedures After the Report Date.

7) The failure to perform sufficient audit procedures to test accounts payable and advance from shareholder

The firm maintains that the audit procedures employed by the firm to test accounts payable and advance from shareholder were adequate. The firm considered the guidelines of AU 390, Consideration of Omitted Procedures After the Report Date and did perform additional procedures to support the amounts recorded in the financial statements at the Report Date. The results of our review and testing did not result in any changes to our previously issued audit opinion.

8) The failure to perform audit procedures to test the accounting for and disclosure of a settlement agreement related to an accounts payable balance

The firm maintains that sufficient audit procedures were used to test the accounting for and disclosure of this settlement agreement regarding an accounts payable balance. The firm has reviewed the audit procedures performed and documentation in the working papers. The firm has also considered AU 390, Consideration of Omitted Procedures After the Report Date and has determined that there is no change to the previously issued audit opinion.

9) The failure to perform sufficient audit procedures to test administrative expenses.

The firm maintains that the testing of administrative expenses was sufficient. The firm has also concluded that the documentation of this testing in the working papers may not have been adequate. The firm has documented this testing in the working papers and in addition in accordance with AU 390, Consideration of Omitted Procedures After the Report Date has performed additional testing of the administrative expenses. The firm has concluded that no changes to the financial statements were necessary and that there is no change in the previously issued audit opinion.

We feel that we have taken appropriate action to assess the importance of the deficiencies reported by the inspection team on our present ability to support our previously issued audit opinions.

We appreciate the opportunity to provide our response to Part I of the Draft Inspection Report and appreciate the comments and observations that have been given to us as part of the inspection process.

Sincerely,

Madsen + Associates CPA's, Inc.

Madsen & Associates CPA's, Inc.