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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Friedman LLP,

Respondent.

PCAOB Release No. 105-2023-001

March 27, 2023

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring Friedman LLP (“Friedman,” the “Firm,” or “Respondent”); and
- (2) imposing a civil money penalty in the amount of \$100,000 on Friedman.¹

The Board is imposing these sanctions on the basis of its findings that: 1) pursuant to Section 105(c)(6) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), Friedman failed to reasonably supervise two accounting firms that were not registered with the Board, yet played a substantial role in 12 issuer audits for fiscal years 2017 and 2018, and 2) Friedman violated the Board’s auditing and quality control standards.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted against Respondent pursuant to Section 105(c) of the Act and PCAOB Rules 5200(a)(1) and (2).

I.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Friedman has submitted an Offer of Settlement (“Offer”) that the Board has determined

¹ Although the Board finds here that the Firm violated PCAOB quality control standards, the Board is not ordering that Friedman undertake and certify the completion of certain improvements to its system of quality control because Friedman’s quality control policies and procedures were subsumed by those of Marcum LLP when that firm acquired substantially all of Friedman’s assets as of September 1, 2022. Following the asset purchase, Friedman submitted a Form 1-WD to withdraw from PCAOB registration, which is pending.

to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.²

II.

On the basis of Friedman's Offer, the Board finds that:

A. Respondent

1. **Friedman LLP** is a limited liability partnership organized under the laws of New York and headquartered in New York, New York. Friedman registered with the Board on October 22, 2003, pursuant to Section 102 of the Act and PCAOB rules. Substantially all of the Firm's assets were acquired by Marcum LLP as of September 1, 2022. The Firm subsequently filed a Form 1-WD to withdraw its PCAOB registration, which is pending.

B. Issuers

2. **ATIF Holdings Limited ("ATIF")** is a holding company incorporated under the laws of the British Virgin Islands with its principal place of business at all relevant times in Shenzhen, People's Republic of China ("China"). ATIF's public filings disclose that it is a business consulting company providing financial consulting services to small and medium-sized enterprises in the U.S. and China. Friedman issued an audit report that ATIF included in a Form F-1/A filed with the U.S. Securities and Exchange Commission ("Commission") for fiscal year ended ("FYE") July 31, 2018.

3. **China HGS Real Estate Inc. a/k/a Green Giant Inc. ("China HGS")** was, during the time of Friedman's FYE September 30, 2018 audit, a corporation organized under the laws of Florida with its principal place of business in Hanzhong, China. China HGS's public filings at that time disclosed that it was a real estate developer in China. Friedman issued an audit report that China HGS included in a Form 10-K filed with the Commission for FYE September 30, 2018.

4. **China Xiangtai Food Co., Ltd. a/k/a Bit Origin Limited ("China Xiangtai")** was, during the time of Friedman's FYE June 30, 2017 audit, a company incorporated under the laws of the Cayman Islands with its principal place of business in Chongqing, China. China Xiangtai's public filings at that time disclosed that it was a pork processing company. Friedman issued an

² The findings herein are made pursuant to Friedman's Offer and are not binding on any other person or entity in this or any other proceeding.

audit report that China Xiangtai included in a Post-Effective Amendment to Form F-1 filed with the Commission for the fiscal years ended June 30, 2017 and June 30, 2016.

5. Dogness (International) Corporation (“Dogness”) is a company incorporated under the laws of the British Virgin Islands with its principal manufacturing operations in Dongguan, China. Dogness’ public filings disclose that it is a designer and manufacturer of dog and cat leashes, collars, and harnesses. Friedman issued an audit report that Dogness included in a Form 20-F filed with the Commission for FYE June 30, 2018.

6. Jerash Holdings (US), Inc. (“Jerash”) is a holding company incorporated in Delaware with its principal manufacturing operations in Jordan and other operations in Hong Kong and China. Jerash’s public filings disclose that it is involved in the manufacturing and exporting of sportswear and outerwear and personal protective equipment. Friedman issued an audit report that Jerash included in a Form 10-K filed with the Commission for FYE March 31, 2018.

7. Jump World Holding Limited (“Jump World”) is a company incorporated under the laws of the Cayman Islands with its principal place of business in Shanghai, China. Jump World’s public filings disclose that it is a producer, developer, and operator of customized online games in China. Friedman issued an audit report that Jump World included in a Form F-1 filed with the Commission for the fiscal years ended December 31, 2017 and December 31, 2016.

8. Kingold Jewelry, Inc. (“Kingold”) was during the time of Friedman’s FYE December 31, 2018 audit, a Delaware corporation with its principal place of business in Wuhan, China.³ Kingold’s public filings at the time disclosed that it was a manufacturer and distributor of jewelry in China. Friedman issued an audit report that Kingold included in a Form 10-K filed with the Commission for FYE December 31, 2018.

9. Leaping Group Co., Ltd. (“Leaping Group”) is a company incorporated under the laws of the Cayman Islands with its principal place of business in Shenyang, China. Leaping Group’s public filings disclose that it is a multimedia service provider specializing in advertising, event planning, and film and TV production. Friedman issued an audit report that Leaping Group included in a Form F-1 filed with the Commission for the fiscal years ended June 30, 2018 and June 30, 2017.

³ On August 21, 2020, Kingold filed a Form 25 with the Commission indicating its removal from listing and/or registration under Section 12(b) of the Securities Exchange Act of 1934.

10. Puhui Wealth Investment Management Co., Ltd. (“Puhui”) is a company incorporated under the laws of the Cayman Islands with its principal place of business in Beijing, China. Puhui’s public filings disclose that it is a third-party wealth management service provider focusing on marketing financial products to, and managing funds for, individuals and corporate clients in China. Friedman issued an audit report that Puhui included in a Post-Effective Amendment to Form F-1 filed with the Commission for FYE June 30, 2018.

11. Recon Technology, Ltd (“Recon”) is a company incorporated under the laws of the Cayman Islands with its principal place of business in Beijing, China. Recon’s public filings disclose that it is a supplier of integrated automation services for the petroleum extraction industry in China. Friedman issued an audit report that Recon included in a Form 20-F filed with the Commission for FYE June 30, 2018.

12. Senmiao Technology Limited (“Senmiao”) is a Nevada corporation with its principal place of business in Chengdu, China. Senmiao’s public filings disclose that it is an online lending platform in China connecting Chinese investors with individual and small-to-medium-sized enterprise borrowers. Friedman issued an audit report that Senmiao included in a Form 10-K filed with the Commission for FYE March 31, 2018.

13. Wah Fu Education Group Limited (“Wah Fu”) is a company incorporated under the laws of the British Virgin Islands with its principal place of business in Beijing, China. Wah Fu’s public filings disclose that it provides online exam preparation services, related technology solutions, and online training course materials in China. Friedman issued an audit report that Wah Fu included in a Form F-1/A filed with the Commission for FYE March 31, 2018.

14. At all relevant times, each of these entities was an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Other Relevant Entities

15. Peking Certified Public Accountants a/k/a Peking CPAs (“Peking CPAs”) is a special general partnership headquartered in Beijing, China. At all relevant times, Peking CPAs was a public accounting firm, as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii), and an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Peking CPAs is not now, and never has been, registered with the Board.

16. Beijing Baijielai Financial Consulting Co., Limited (“Beijing Baijielai”) is a limited liability company headquartered in Beijing, China. At all relevant times, Beijing Baijielai was a public accounting firm, as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii), and an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Beijing Baijielai is not now, and never has been, registered with the Board.

D. Summary

17. This matter concerns Friedman’s failure to reasonably supervise associated persons under the Act and its repeated violations of PCAOB rules and standards in connection with its use of the work of other accounting firms in China.

18. First, Friedman improperly allowed unregistered firms Peking CPAs and Beijing Baijielai (collectively, the “Unregistered Firms”) to play a substantial role in audits of the financial statements of 12 issuer clients for FYEs 2017 and 2018 (collectively, the “Audits”). Friedman knew, or should have known, that the Unregistered Firms were required to register with the Board before the firms played a substantial role in any issuer audits. Friedman, however, failed to take any steps to ensure that the Unregistered Firms’ participation in the Audits was consistent with PCAOB registration requirements and that the Unregistered Firms did not “play a substantial role” in the Audits.⁴

19. Participation by the Unregistered Firms in the Audits in many instances far exceeded the 20% substantial role threshold, including two audits in which Peking CPAs incurred 52% of the total audit hours. Due to its inadequate planning and oversight of the Unregistered Firms’ participation in the Audits, Friedman failed to reasonably supervise its associated persons pursuant to Section 105(c)(6) of the Act and failed to comply with PCAOB rules and standards concerning due professional care and audit planning.

20. Moreover, the repeated violations described above demonstrate that, during the Audits, Friedman failed to establish and implement adequate quality control policies and procedures, including monitoring procedures, concerning the use of work of other accounting firms, in violation of PCAOB quality control standards.

E. Requirements Related to Playing a Substantial Role in an Audit

21. Section 102(a) of the Act makes it “unlawful” for an accounting firm that is not registered with the Board “to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer, broker, or dealer.”⁵

⁴ See PCAOB Rule 1001(p)(ii), *Play a Substantial Role in the Preparation or Furnishing of an Audit Report* (defining “play a substantial role in the preparation or furnishing of an audit report” to mean, among other things, “perform[ing] material services that a public accounting firm uses or relies on in issuing all or part of its audit report”). “Material services” are further defined as “services, for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal auditor in connection with the issuance of all or part of its audit report.” *Id.*, Note 1.

⁵ 15 U.S.C. § 7212(a).

22. In addition, Section 106(a)(2) of the Act states:

The Board may, by rule, determine that a foreign public accounting firm (or a class of such firms) that does not issue audit reports nonetheless plays such a substantial role in the preparation and furnishing of such reports for particular issuers, brokers, or dealers, that it is necessary or appropriate, in light of the purposes of this Act and in the public interest or for the protection of investors, that such firm (or class of firms) should be treated as a public accounting firm (or firms) for purposes of registration under, and oversight by the Board in accordance with, this subchapter.⁶

23. In furtherance of these provisions, the Board adopted PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*, which requires any accounting firm, foreign or domestic, that “plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer” to register with the Board.

24. As noted above, PCAOB Rule 1001(p)(ii) defines the phrase “play a substantial role in the preparation or furnishing of an audit report” to mean, among other things, “perform[ing] material services that a public accounting firm uses or relies on in issuing all or part of its audit report.” The phrase “material services” means “services, for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal auditor in connection with the issuance of all or part of its audit report.”⁷

F. Background

25. In 2015, in order to comply with a mandate by the China Ministry of Finance relating to cooperation between domestic Chinese accounting firms and overseas firms,⁸ Friedman entered into a written agreement with a China-based PCAOB registrant (the “Registrant”). Friedman understood that the mandate required Friedman, as an accounting firm outside of China, to engage the cooperation of a domestic Chinese accounting firm in order to provide auditing services for overseas listings of China-based enterprises. Friedman’s agreement with the Registrant governed, among other things, the participation of the

⁶ 15 U.S.C. § 7216(a)(2).

⁷ PCAOB Rule 1001(p)(ii), Note 1.

⁸ At the time of the Audits, Friedman understood the relevant mandate to be the *Interim Provisions on Accounting Firms’ Provision of Auditing Services for the Overseas Listing of Enterprises in Chinese Mainland*, effective July 1, 2015.

Registrant in Friedman audits. Pursuant to that agreement, the Registrant began to participate in Friedman's audits of issuers.

26. Later that year, following the establishment of the practice of working with the Registrant, Friedman entered into a similar agreement with Peking CPAs. Unlike the Registrant, however, Peking CPAs was not registered with the PCAOB.

27. The agreement with Peking CPAs detailed Peking CPAs' ability, as a China Ministry of Finance-approved licensed full service public accounting firm registered with the China State Administration for Industry and Commerce, to conduct financial statement audits in China; allowed for the execution of detailed engagement letters between Friedman and Peking CPAs on a project-by-project basis; and also promoted referrals and joint work between the two entities.

28. The agreement's terms also provided Friedman with standardized hourly rates by title for Peking CPAs staff, and included a maximum percentage of 27% for the total audit fees to be apportioned to Peking CPAs for the firm's provision of audit services (above the 20% substantial role threshold), subject to final agreement by the respective engagement partners at each firm on a project-by-project basis.

29. The agreement further required each party to pay a 10% commission annually on referred work, and also required Friedman to provide training, to be paid for by Peking CPAs, to accountants at Peking CPAs at least annually on several topics, including, among other things, U.S. generally accepted accounting principles ("GAAP") and PCAOB standards.⁹

30. Several years later, in 2018, Beijing Baijielai, an affiliate of the Registrant, agreed with Friedman to provide services in connection with Friedman's audit of Jerash on terms similar to those set forth in Friedman's agreement with the Registrant. Like Peking CPAs, Beijing Baijielai was not registered with the PCAOB. Friedman did not execute a written agreement with Beijing Baijielai as it had done in 2015 with Peking CPAs, but Friedman personnel understood that the relationship between Friedman and Beijing Baijielai would be governed by the existing agreement with the Registrant and the engagement-specific agreement between Beijing Baijielai and Friedman for the Jerash audit.

31. During the Audits, Friedman utilized Peking CPAs in 11 of the Audits and utilized Beijing Baijielai in the Jerash audit.

32. In connection with each of the Audits, Friedman and the corresponding Unregistered Firm entered into a separate engagement-specific letter agreement that governed

⁹ The agreement between the Firm and Peking CPAs contemplated Friedman's supervision of Peking CPAs personnel pursuant to AS 1201, *Supervision of the Audit Engagement*.

the Unregistered Firm's participation in the audit. The letter agreements each made clear that the Unregistered Firm would be participating in the relevant audit and the significance of that participation.¹⁰

33. For example, a letter agreement concerning China Xiangtai, dated July 9, 2018, confirmed, among other things, Peking CPAs' independence, familiarity with PCAOB standards and SEC reporting requirements, and detailed that Friedman intended to place reliance on the audit procedures performed by Peking CPAs staff relative to China Xiangtai's consolidated financial statements as of and for the year ended June 30, 2018.

34. Following each of the Audits, the relevant Unregistered Firm then invoiced Friedman with the staff names, amount of hours worked, hourly rate, and amount owed in U.S. dollars for the particular engagement. Friedman subsequently paid the Unregistered Firm invoices via wire transfer.

35. Friedman did not adequately consider the relevant PCAOB rules relating to playing a substantial role in the preparation or furnishing of an audit report when the change was made from working with the Registrant to the unregistered firms Peking CPAs and Beijing Baijielai.

36. In 11 of the Audits, Peking CPAs exceeded the 20% substantial role threshold in either total hours, total fees, or both. In the Jerash audit, Beijing Baijielai exceeded the 20% substantial role threshold in total hours and total fees. As shown in the table below, the Unregistered Firms' hours incurred on the Audits ranged from 25% to 52% of the total audit hours and fees ranged from 12% to 34% of the total audit fees.

¹⁰ The engagement-specific letter agreements also contemplated Friedman's supervision of Peking CPAs and Beijing Baijielai personnel pursuant to AS 1201.

Issuer	FYE	Total Audit Hours Incurred by Unregistered Firm	Total Audit Fees Apportioned to Unregistered Firm
ATIF Holdings Limited	July 31, 2018	52%	27%
China HGS Real Estate Inc. (a/k/a Green Giant Inc.)	Sept. 30, 2018	30%	27%
China Xiangtai Food Co., Ltd. a/k/a Bit Origin Limited	June 30, 2017	47%	27%
Dogness (International) Corporation	June 30, 2018	34%	27%
Jerash Holdings (US), Inc. ¹¹	March 31, 2018	29%	32%
Jump World Holding Limited	Dec. 31, 2017	52%	27%
Kingold Jewelry, Inc.	Dec. 31, 2018	42%	34%
Leaping Group Co., Ltd.	June 30, 2018	35%	27%
Puhui Wealth Investment Management Co., Ltd.	June 30, 2018	36%	32%
Recon Technology, Ltd	June 30, 2018	38%	22%
Senmiao Technology Limited	March 31, 2018	25%	12%
Wah Fu Education Group Limited	March 31, 2018	37%	27%

37. With respect to the Audits, Friedman failed to take adequate steps to plan or supervise the audits in a manner that would ensure that only firms registered with the PCAOB played a substantial role in the audits. Friedman knew from its agreements with Peking CPAs and Beijing Baijielai that the Unregistered Firms were contractually permitted to participate at a greater than 20% rate, and specifically contemplated greater than 20% fee participation (*i.e.*, at the standard maximum 27% fee apportionment—or negotiated at a percentage higher than

¹¹ As noted above, Beijing Baijielai participated in the Jerash audit and Peking CPAs participated in the remaining 11 audits.

that, as reflected in the above chart). Neither of the agreements, nor the 12 engagement-specific agreements, identified the Unregistered Firms as PCAOB-registered. Moreover, invoices in 11 of the 12 Audits that the Unregistered Firms sent to Friedman for their audit work were more than 20% of the total audit fees. Despite this evidence, Friedman failed to take any steps to determine whether the Unregistered Firms were permitted to play a substantial role in the Audits.

G. Friedman Failed to Reasonably Supervise the Unregistered Firms and Violated PCAOB Rules and Standards

38. During each of the Audits, the Unregistered Firms incurred more than 20% of the total engagement hours or total audit fees. Accordingly, Peking CPAs, in 11 of the Audits, and Beijing Baijielai, in the Jerash audit, played a substantial role without being registered with the Board, in violation of Section 102(a) of the Act and PCAOB Rule 2100.

39. Friedman failed to reasonably supervise the Unregistered Firms' participation in the Audits in a manner designed to avoid violations of Section 102(a) of the Act and PCAOB Rule 2100, and Friedman likewise failed to properly plan the audits.

i. Friedman Failed to Reasonably Supervise the Unregistered Firms

40. Section 105(c)(6) of the Act provides that the Board may impose sanctions on a registered public accounting firm if the Board finds that (1) the firm has failed reasonably to supervise an associated person, either as required by the rules of the Board relating to auditing or quality control standards, or otherwise, with a view to preventing violations of the Act or the rules of the Board; and (2) such associated person commits a violation of the Act or Board rules.

41. Under Section 2(a)(9) of the Act, the term "person associated with a registered public accounting firm" includes "any . . . entity that, in connection with the preparation or issuance of any audit report—(i) shares in the profits of, or receives compensation in any other form from, that firm; or (ii) participates as agent or otherwise on behalf of such accounting firm in any activity of that firm."

42. The Unregistered Firms invoiced Friedman for the services it provided in connection with the Audits. Thus, the Unregistered Firms "receive[d] compensation" from Friedman in connection with the preparation and issuance of Friedman's audit reports. In addition, because they performed audit work at the direction, and under the supervision, of Friedman, the Unregistered Firms each acted as an "entity that, in connection with the preparation or issuance of [Friedman] audit report[s], . . . participate[d] as agent or otherwise on behalf of [Friedman]." Accordingly, each of the Unregistered Firms was an "associated person" of Friedman during the Audits.

43. Friedman had a responsibility to reasonably supervise its associated persons during its issuer audits. It failed to do so.

44. During the Audits, Friedman knew or should have known that PCAOB standards required substantial role participants to be PCAOB-registered, but failed to consider the relevant rules relating to playing a substantial role in the preparation or furnishing of an audit report when the change was made from using the Registrant to using the Unregistered Firms. Certain Friedman personnel were aware during the Audits that Peking CPAs was not a PCAOB registrant.

45. Friedman had quality control policies and procedures in place at the time of the Audits, but did not have policies specifically addressing PCAOB rules relating to substantial role participation by other accounting firms.

46. Friedman failed to take adequate steps to ensure that the Unregistered Firms it used to play a substantial role in the Audits were registered with the Board. As noted above, Friedman knew, or should have known, from its agreements with Peking CPAs and Beijing Baijielai, the Unregistered Firms' invoices, and other communications with the Unregistered Firms that each of the Unregistered Firms was under Friedman's supervision and subject to greater than 20% participation in the Audits. Friedman also knew or should have known from readily available public information, such as the PCAOB website, that each of the Unregistered Firms was not registered with the Board. However, Friedman failed to adequately consider that information to ensure compliance with applicable professional standards, regulatory requirements, and the Firm's standards of quality.

47. Because the Unregistered Firms incurred more than 20% of the total audit hours or total audit fees in each of the Audits, they performed material services used by Friedman in issuing Friedman's audit reports. The Unregistered Firms therefore violated Section 102(a) of the Act and PCAOB Rule 2100 by playing a substantial role in the Audits without being registered with the Board.

48. As detailed above, Friedman failed to reasonably supervise the Unregistered Firms under Section 105(c)(6) of the Act with a view to preventing the Unregistered Firms' violations of PCAOB registration requirements.

ii. Friedman Violated PCAOB Rules and Standards

49. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board’s auditing and related professional practice standards.¹²

50. PCAOB standards provide that, as part of audit planning, the auditor should establish an overall audit strategy.¹³ The auditor should take into account “[t]he factors that are significant in directing the activities of the engagement team” and “[t]he nature, timing, and extent of resources necessary to perform the engagement.”¹⁴ PCAOB standards also require that “[d]ue professional care . . . be exercised in the planning and performance of the audit and the preparation of the report.”¹⁵

51. Friedman conducted all audit planning and designed all audit programs and audit procedures during the Audits.

52. In establishing the overall audit strategy for the Audits, Friedman failed to adequately take into account: (1) the fact that the Unregistered Firms were unregistered firms whose substantial role participation in the Audits would constitute a violation of PCAOB rules, as Friedman knew or should have known; and (2) the nature of the resources necessary to perform the audits, insofar as those resources included the involvement of unregistered firms.¹⁶ As a result of these failures, Friedman did not adequately plan the audits to ensure that the Unregistered Firms would not violate PCAOB registration requirements.

53. Accordingly, in violation of PCAOB Rule 3100, Friedman violated AS 2101. Friedman also violated AS 1015 by failing to exercise due professional care in planning the Audits.

H. Friedman Violated PCAOB Quality Control Standards

54. PCAOB rules require that a registered firm comply with PCAOB quality control standards.¹⁷ Those standards require a firm to “have a system of quality control for its

¹² PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

¹³ AS 2101.08, *Audit Planning*.

¹⁴ AS 2101.09.

¹⁵ AS 1015.01, *Due Professional Care in the Performance of Work*.

¹⁶ See AS 2101.05 (“Planning is not a discrete phase of an audit but, rather, a continual and iterative process that . . . continues until the completion of the current audit.”).

¹⁷ PCAOB Rule 3400T, *Interim Quality Control Standards*.

accounting and auditing practice.”¹⁸ As part of this requirement, “[p]olicies and procedures should be established to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality.”¹⁹

55. PCAOB quality control standards also recognize that monitoring procedures are necessary “to provide the firm with reasonable assurance that the policies and procedures relating to each of the other elements of quality control are suitably designed and are being effectively applied.”²⁰ Under PCAOB standards, monitoring involves an ongoing consideration and evaluation of, among other things, compliance with the firm’s policies and procedures.²¹

56. Friedman failed to establish and implement adequate policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that the work performed by engagement personnel met applicable regulatory requirements related to using the work of other accounting firms.

57. Although Friedman had quality control policies and procedures, its policies and procedures did not adequately address substantial role participation by other accounting firms, and the Firm failed to implement such policies and monitor them in an adequate manner. As a result, Friedman repeatedly used the Unregistered Firms to play a substantial role in the Audits.

58. Accordingly, Friedman failed to comply with QC § 20 and QC § 30.

III.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent’s Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rules 5300(a)(5), Friedman is censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty of \$100,000 on Friedman. All funds collected by the Board as a result of the assessment of this civil money penalty

¹⁸ QC § 20.01, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*.

¹⁹ QC § 20.17.

²⁰ QC § 30.02, *Monitoring a CPA Firm’s Accounting and Auditing Practice*; see also QC § 20.20.

²¹ See QC § 20.20.d; QC § 30.02.d.

will be used in accordance with Section 109(c)(2) of the Act. Respondent shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006. **Respondent understands that the failure to pay the civil money penalty described above may result in summary suspension of the Firm's registration, pursuant to PCAOB Rule 5304(a);** and

- C. With respect to any civil money penalty amounts that Respondent shall pay pursuant to this Order, Respondent shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against Respondent based on substantially the same facts as set out in the findings in this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

March 27, 2023