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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Shandong Haoxin Certified Public
Accountants Co., Ltd., LIU Kun, MA Yao, SUN
Penghuan, and ZHU Dawei,*

Respondents.

PCAOB Release No. 105-2023-045

November 30, 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 Shandong Haoxin Certified Public Accountants Co., Ltd. (“Haoxin” or the “Firm”) and four associated persons of the Firm: LIU Kun (“Liu”), MA Yao (“Ma”), SUN Penghuan (“Sun”), and ZHU Dawei (“Zhu”) (collectively, “Respondents”);
- (2) limiting the activities, functions, and operations of Haoxin, including by prohibiting it from accepting new engagements to prepare or issue audit reports for new clients who are issuers, brokers, or dealers, as those terms are defined by U.S. securities laws and PCAOB rules, until the Firm completes certain quality control remediation measures, and requiring pre-issuance quality control monitoring reviews on issuer audits for a defined period of time;
- (3) requiring Haoxin to engage an independent monitor for the period specified in this Order;
- (4) requiring Haoxin to adopt and implement certain policies and procedures related to its system of quality control;

- (5) barring Liu, Ma, Sun, and Zhu (collectively, the “Individual Respondents”) each from being an associated person of a registered public accounting firm;¹
- (6) limiting Ma’s activities for an additional one-year period if the Board later consents to Ma’s association with a registered firm;
- (7) imposing civil money penalties in the amount of \$750,000 upon Haoxin, \$100,000 upon Liu, \$50,000 upon Ma, \$20,000 upon Sun, and \$20,000 upon Zhu;² and
- (8) requiring Liu, Ma, and Sun to complete 50 hours of additional continuing professional education.

The Board is imposing these sanctions on the basis of its findings that Respondents violated securities laws and/or PCAOB rules and standards in connection with the audits of the 2015-2017 financial statements of Gridsum Holding Inc. (“Gridsum” or the “Company”). Specifically, (1) Haoxin violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Exchange Act Rule 10b-5 by issuing an audit report falsely stating that the Firm’s audits of the 2015-2017 financial statements of Gridsum (“Gridsum Audits”) had been performed in accordance with PCAOB standards and that Haoxin was independent of Gridsum; (2) Liu, the engagement partner for the Gridsum Audits, and Ma, the engagement quality reviewer, recklessly contributed to the Firm’s Section 10(b) and Rule 10b-5 violations; (3) Haoxin and the Individual Respondents violated independence requirements and/or PCAOB auditing, ethics, and quality control rules and standards; and (4) Haoxin and Zhu failed to cooperate with the investigation conducted by the PCAOB Division of Enforcement and Investigations (“Division”) by providing false information and testimony.

I.

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 Respondents

¹ Liu, Ma, and Sun may file petitions for Board consent to associate with a registered public accounting firm after the expiration of the following time periods from the date of this Order: Liu—four years, Ma—two years, and Sun—one year.

² Based on their conduct, Zhu’s civil money penalty in this settlement would have been \$120,000 and Ma’s civil money penalty would have been \$75,000. The Board determined to accept Zhu’s and Ma’s offers of settlement and impose lower penalties after considering their financial resources.

pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”) and PCAOB Rule 5200(a)(1) and (3).

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the “Offers”) that the Board has determined to accept. Solely for the purpose of these proceedings and any other proceeding brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings contained herein, except as to the Board’s jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.³

III.

On the basis of Respondents’ Offers, the Board finds that:⁴

A. Respondents

1. **Shandong Haoxin Certified Public Accountants Co., Ltd.** is a limited liability corporation headquartered in Weifang City, Shandong Province, the People’s Republic of China (“China”). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules, and is licensed by the China Ministry of Finance (license no. 37060025). Haoxin served as the external auditor of Gridsum from January 6, 2019, until the Company terminated its registration with the Securities and Exchange Commission (“SEC” or the “Commission”) in April 2021.

2. **LIU Kun** is a partner of Haoxin, and served as the engagement partner for the Gridsum Audits. He is a certified public accountant licensed by the Chinese Institute of Certified Public Accountants (“CICPA”) (license no. 110001022639). He is, and at all relevant times was, 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).

³ The findings herein are made pursuant to Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

⁴ The Board finds that Respondents’ conduct described in this Order meets the condition set out in Section 105(c)(5)(A) of the Act, which provides that certain sanctions may be imposed in the event of intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard.

3. **MA Yao** is a director of Haoxin, and served as the engagement quality reviewer for the Gridsum Audits. She is a certified practising accountant licensed by CPA Australia (license no. 10537234). She is, and at all relevant times was, 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).

4. **SUN Penghuan** is a director of Haoxin, and served as the manager for the Gridsum Audits. She is a certified public accountant licensed by the CICPA (license no. 370600250003). She is, and at all relevant times was, 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).

5. **ZHU Dawei** is a partner of Haoxin, and at all relevant times was the Firm’s chief partner and legal representative.⁵ He is a certified public accountant licensed by the CICPA (license no. 370600010005). He is, and at all relevant times was, 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).

B. Issuer

6. **Gridsum Holding Inc.** was, at all relevant times, an exempted company with limited liability, incorporated in the Cayman Islands, with its headquarters in Beijing, China. Its public filings disclose that Gridsum provided data analysis software for multinational and domestic enterprises and government agencies in China. During all relevant times, Gridsum’s American Depository Shares were listed on Nasdaq Stock Market LLC and Gridsum was an “issuer,” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

7. This matter involves Haoxin’s issuance of a false audit report, as well as a host of other egregious violations of independence requirements and PCAOB rules and standards committed by the Firm and some of its most senior personnel.⁶

⁵ Under Chinese law, each company in mainland China is required to have a legal representative, who executes the functions and powers on behalf of a company. The legal representative has the statutory power to represent a company, and his or her acts bind the company.

⁶ All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the Gridsum Audits.

8. On January 6, 2019, Haoxin, having never previously served as a principal auditor on an audit governed by PCAOB standards, executed an agreement to audit Gridsum's 2015, 2016, and 2017 financial statements. *On the next day*, the Firm issued an unqualified audit opinion on those financial statements. It did so even though it was aware that (a) Gridsum had terminated a predecessor auditor ("Auditor A") after Auditor A had raised concerns about Gridsum's 2017 financial statements and informed Gridsum that its audit report on the Company's 2016 financial statements should no longer be relied upon; and (b) the audit firm ("Auditor B") that had replaced Auditor A had determined that it could not finish its audits of Gridsum's 2015, 2016, and 2017 financial statements because of an inability to obtain certain information it needed to complete its procedures and express an audit opinion.

9. To conduct the Gridsum Audits, Haoxin obtained incomplete draft work papers from Auditor B for the audits of Gridsum's 2015, 2016, and 2017 financial statements in late December 2018 under a "pre-audit agreement," adopted those draft work papers as its own, and performed limited additional procedures. However, even that improper approach left substantial gaps in the audit work, as evidenced by the fact that Haoxin continued to ask Auditor B for additional draft work papers—some of which later became part of the audit file—weeks after Haoxin issued its unqualified audit opinion, which stated that the Firm had conducted the Gridsum Audits in accordance with PCAOB standards. In issuing that unqualified audit opinion stating that the audit had been performed in accordance with PCAOB standards knowing, or recklessly not knowing, that statement was false, Haoxin violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5.

10. Haoxin also violated Section 10(b) and Rule 10b-5 because, at the time it issued what it described as its "Report of Independent Registered Public Accounting Firm," it knew, or was reckless in not knowing, that it was not independent of Gridsum. That was because Haoxin, prior to being retained as auditor and at Gridsum's request, had conducted a "pre-audit" of Gridsum's financial statements and had told Gridsum's audit committee that it was prepared to issue an unqualified audit opinion. It was only after Haoxin made that commitment that Gridsum terminated Auditor B and appointed Haoxin as its auditor. Because the Firm informed Gridsum of its expectation to issue an unqualified opinion prior to being engaged to perform the Gridsum Audits, the Firm was not independent of Gridsum. The Firm also was not independent because, through its financial arrangements with Gridsum, the Firm effectively agreed to provide an unqualified opinion for a contingent fee.

11. The Firm also violated other PCAOB rules and standards in connection with the Gridsum Audits. Because it improperly relied on Auditor B's draft work papers in multiple areas, including areas involving significant risks and fraud risks, the Firm failed to plan and perform the Gridsum Audits to obtain sufficient appropriate audit evidence supporting its opinion, in

violation of multiple PCAOB standards. And because the Firm failed to satisfy the independence criteria of Rule 2-01 of SEC Regulation S-X, it also violated PCAOB rules and standards related to auditor independence.

12. In addition, the Firm (1) violated PCAOB audit documentation standards because the Gridsum audit documentation contained a substantial amount of false information; (2) failed to cooperate with a PCAOB investigation by knowingly providing false audit documentation to the Division and by making a false statement to the Division about the personnel involved in the Gridsum audits; (3) violated PCAOB rules by failing to make required communications to Gridsum's audit committee related to independence; and (4) failed to design and implement a system of quality control that would provide the Firm with reasonable assurance that (a) its personnel would maintain independence and perform all professional responsibilities with integrity and maintain objectivity; (b) the Firm would undertake only those engagements it could reasonably expect to be completed with professional competence; and (c) its personnel would comply with applicable professional standards.

13. The Individual Respondents also engaged in significant conduct violative of securities laws and PCAOB rules and standards. Liu, the engagement partner on the Gridsum Audits, violated PCAOB rules and standards because he failed to obtain sufficient appropriate audit evidence supporting the Firm's audit opinion. He also violated independence requirements because he informed Gridsum's audit committee of the Firm's expectation to issue an unqualified audit opinion prior to being engaged to perform the Gridsum Audits. In addition, Liu violated PCAOB audit documentation standards and ethics rules because he signed audit documentation containing a substantial amount of materially false, inaccurate, and/or misleading information. And he directly and substantially contributed to the Firm's violation of PCAOB rules by recklessly failing to make required communications to Gridsum's audit committee regarding independence prior to the Firm accepting the engagement for the Gridsum Audits. Finally, he directly and substantially contributed to the Firm's violations of Section 10(b) and Rule 10b-5 when he authorized the issuance of the Firm's audit opinion knowing, or recklessly not knowing, that the Gridsum Audits had not been conducted in accordance with PCAOB standards and that the Firm was not independent of Gridsum.

14. Ma, the engagement quality reviewer on the Gridsum Audits, violated PCAOB rules and standards because she failed to conduct her engagement quality review with due professional care and in accordance with AS 1220, *Engagement Quality Review*. Like Liu, Ma also violated independence requirements, PCAOB audit documentation standards, and PCAOB ethics rules. Further, as the individual at the Firm responsible for the design and implementation of the Firm's system of quality control, Ma also knowingly or recklessly contributed to the Firm's violations of PCAOB quality control standards. Finally, Ma directly and

substantially contributed to the Firm's Section 10(b) and Rule 10b-5 violations when she concurred in the issuance of the Firm's audit opinion knowing, or recklessly not knowing, that the Gridsum Audits had not been conducted in accordance with PCAOB standards and that the Firm was not independent of Gridsum.

15. Zhu, the head of the Firm at all relevant times, knowingly or recklessly contributed to the Firm's violations of quality control standards, its violations of independence rules and standards, and its failure to make required communications to Gridsum's audit committee related to independence. Zhu also failed to cooperate with a PCAOB investigation because he provided false audit documentation and other false information to the Division in response to accounting board demands.

16. Finally, Sun, the manager on the Gridsum Audits, violated PCAOB audit documentation standards and ethics rules because, like Liu and Ma, she signed audit documentation containing materially false, inaccurate, and/or misleading information.

D. Haoxin Violated Federal Securities Laws in Issuing a False Audit Report, and Liu and Ma Knowingly or Recklessly, and Directly and Substantially, Contributed to the Firm's Violations

i. Applicable Securities Laws

17. Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5 prohibit a person, in connection with the purchase or sale of a security, from making an untrue statement of a material fact or from omitting to state a material fact necessary to make statements made, in light of the circumstances under which they were made, not misleading.⁷ To violate Section 10(b) or Rule 10b-5, a respondent must act with scienter,⁸ which the Supreme Court has defined as "a mental state embracing intent to deceive, manipulate, or defraud."⁹ Scienter encompasses knowing or intentional conduct, or recklessness.¹⁰

18. An auditor violates Section 10(b) of the Exchange Act and Rule 10b-5 thereunder by issuing an audit report stating that the audit has been performed in accordance with PCAOB

⁷ See Section 10(b) of the Exchange Act, 15 U.S.C. § 78j; Exchange Act Rule 10b-5, *Employment of manipulative and deceptive devices*, 17 C.F.R. § 240.10b-5(b).

⁸ *Aaron v. SEC*, 446 U.S. 680, 695, 701-02 (1980).

⁹ *Ernst & Ernst v. Hochfelder*, 425 U.S. 185, 193 n.12 (1976).

¹⁰ See, e.g., *IIT v. Cornfeld*, 619 F.2d 909, 923 (2d Cir. 1980).

standards or that the auditor is “independent” when the auditor knows, or is reckless in not knowing, that the statement is false.¹¹

ii. Haoxin’s “Pre-Audit Engagement” with Gridsum

19. In late April 2018, Auditor A, after previously informing Gridsum of concerns it had identified in its 2017 audit, notified Gridsum’s audit committee that its audit opinion on Gridsum’s financial statements for the year ended December 31, 2016 should no longer be relied upon. Shortly thereafter, Gridsum dismissed Auditor A and engaged Auditor B as its new external auditor.¹²

20. Auditor B then began performing audit procedures on Gridsum’s 2015, 2016, and 2017 financial statements. In the second half of December 2018, after performing substantial audit procedures, Auditor B recognized that it would not be able to complete its audit because a China-based audit firm with a technology specialty retained to help verify certain of Gridsum’s revenue-generating activities could not agree to share its work with Auditor B, due to cybersecurity and data privacy regulations in China.

21. On December 10, 2018, while Auditor B was still Gridsum’s external auditor, Haoxin’s legal representative and partner, Zhu, and Gridsum’s Co-Chief Financial Officer executed a document under which Haoxin agreed to: (1) review Auditor B’s draft work papers for Auditor B’s incomplete 2015, 2016, and 2017 audits of Gridsum; and (2) “pre-audit” Gridsum’s financial statements and related information for those three years (the “Pre-Audit Engagement Agreement”). In return, Gridsum was required to pay a fixed fee to Haoxin that would offset any later audit fee, should Gridsum subsequently engage Haoxin as its external auditor.

¹¹ See *Anthony Kam & Assocs. Ltd., and Anthony KAM Hau Choi, CPA*, PCAOB Release No. 105-2017-043, at 5 (Nov. 28, 2017); *Deloitte Touche Tohmatsu Auditores Independentes*, PCAOB No. 105-2016-031, at 9 (Dec. 5, 2016); *Richard P. Scalzo, CPA*, Exchange Act Rel. No. 48328, 2003 WL 21938985, at *1 (Aug. 13, 2003); *Dennis M. Gaito, CPA*, Exchange Act Rel. No. 34-45941, 2002 WL 992743, at *10 (May 16, 2002).

¹² From 2015, Haoxin served as Auditor B’s mainland China accounting firm as required by the Provisional Rule for Accounting Firms Engaged in Audit Services in Respect of Overseas Listing of Chinese Mainland Enterprises (Cai Kuai [2015] No. 9 by the Ministry of Finance of the People’s Republic of China) for Auditor B’s audits of overseas listed, mainland China enterprises.

22. In late December 2018, while operating under the Pre-Audit Engagement Agreement, Haoxin obtained and reviewed electronic copies of certain of Auditor B's draft work papers.

23. Then, on January 3, 2019, before Gridsum engaged Haoxin as its external auditor, Haoxin informed Gridsum's audit committee that it had substantially completed its pre-audit work and was ready to issue an unqualified audit opinion on Gridsum's 2015, 2016, and 2017 financial statements (subject to management making any changes to its financial information).

iii. Haoxin's Issuance of an Unqualified Audit Opinion

24. On January 6, 2019, Gridsum engaged Haoxin as its external auditor by executing a formal audit engagement agreement (the "Audit Engagement Agreement"), which required Haoxin to "complete the audit work and issue the auditor's report within 15 business days after receiving from [Gridsum] all materials required for the audit."

25. Under the Audit Engagement Agreement, Gridsum was required to pay Haoxin RMB 2.4 million for performing the Gridsum Audits. However, prior to entering into the Audit Engagement Agreement, Haoxin had already billed Gridsum 75% of that amount under the Pre-Audit Engagement Agreement.

26. On January 7, 2019, the day after executing the Audit Engagement Agreement, Haoxin released its same-dated audit report containing an unqualified audit opinion on Gridsum's 2015-2017 financial statements.

iv. Haoxin's Improper Reliance on Auditor B's Audit Documentation

27. PCAOB standards permit auditors, under certain circumstances, to "use the work and reports of other independent auditors who have audited the financial statements of *one or more [of an issuer's] subsidiaries, divisions, branches, components, or investments.*"¹³ PCAOB standards do not, however, permit an auditor to adopt wholesale another auditor's work papers and, based on the other auditor's work papers, issue an audit opinion for an issuer.

28. To support its unqualified audit opinion on Gridsum's 2015-2017 financial statements, Haoxin did what PCAOB standards do not allow. Rather than performing sufficient procedures to support its opinion, Haoxin performed limited procedures and relied primarily on the draft work papers Auditor B had prepared.

¹³ AS 1205.01, *Part of the Audit Performed by Other Independent Auditors* (emphasis added).

29. Indeed, Haoxin copied, in many instances word-for-word, Auditor B's draft documentation without reperforming the relevant audit procedures. In fact, over one-quarter of Haoxin's audit documentation, much of which contained responses to significant or fraud risks, is essentially identical, or substantially similar, to Auditor B's draft audit documentation.

30. Moreover, at the time Haoxin released its audit report, it had not even completed its efforts to obtain all of the documentation from Auditor B that it had sought. For example, the Firm requested specific additional audit documentation from Auditor B more than a week after it released its audit report. Haoxin included some of that additional documentation in the final set of work papers that it assembled for retention in connection with the Gridsum Audits.

v. Haoxin Improperly Issued Its Audit Report, in Violation of Securities Laws, and Liu and Ma Knowingly or Recklessly, and Directly and Substantially, Contributed to that Violation

31. As detailed above, rather than conduct its own audit, Haoxin primarily relied on the audit work performed by Auditor B, and therefore failed to plan and perform the Gridsum Audits in accordance with PCAOB standards. In addition, Haoxin was not independent of Gridsum during the Gridsum Audits because, as discussed above and in more detail below, it (1) informed Gridsum of the Firm's expectation to issue an unqualified opinion prior to being engaged to perform the Gridsum Audits; and (2) effectively agreed to provide an unqualified opinion for a contingent fee.

32. Haoxin nevertheless issued its audit report with an unqualified opinion on Gridsum's 2015-2017 financial statements. That audit report stated that the Gridsum Audits had been conducted in accordance with PCAOB standards and that Haoxin was independent of Gridsum, when the Firm knew, or was reckless in not knowing, that both of those statements were false. Thus, Haoxin violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

33. PCAOB Rule 3502 provides that "[a] person associated with a registered public accounting firm shall not take or omit to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting firm of the Act, the Rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards."¹⁴

¹⁴ PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

34. When Liu, as the engagement partner for the Gridsum Audits, authorized the issuance of Haoxin's audit report, and when Ma, as the engagement quality reviewer for the Gridsum Audits, provided her concurring approval of issuance, they also knew, or were reckless in not knowing, that the Gridsum Audits had not been conducted in accordance with PCAOB standards and that Haoxin was not independent of Gridsum. By nonetheless authorizing and concurring in the issuance of Haoxin's audit report, they directly and substantially contributed to the Firm's violations of Section 10(b) and Rule 10b-5, in violation of PCAOB Rule 3502.

E. Haoxin and Liu Failed to Obtain Sufficient Appropriate Audit Evidence in Connection with the Gridsum Audits in Violation of PCAOB Rules and Standards

35. 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 all applicable auditing and related professional practice standards.¹⁵

36. An auditor may express an unqualified opinion on the financial statements of a company when the auditor conducted an audit in accordance with the standards of the PCAOB and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.¹⁶

37. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion expressed in the auditor's report, including obtaining reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.¹⁷ Auditors are required to evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.¹⁸

38. As described above, Haoxin and Liu failed to perform necessary audit procedures and instead improperly relied on draft work papers prepared by Auditor B. As a result of this

¹⁵ PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

¹⁶ See AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

¹⁷ See AS 1105.04, *Audit Evidence*; AS 2401.12, *Consideration of Fraud in a Financial Statement Audit*.

¹⁸ See AS 2810.33, *Evaluating Audit Results*.

conduct, Haoxin and Liu failed to plan and perform the Gridsum Audits to obtain reasonable assurance about whether the financial statements were free of material misstatement. Haoxin and Liu also failed to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for their opinion. Therefore, Haoxin and Liu violated AS 1105 and AS 2810.

F. Haoxin, Liu, and Ma Violated PCAOB Rules and Standards Relating to Auditor Independence, and Zhu Knowingly or Recklessly, and Directly and Substantially, Contributed to Haoxin’s Violations

39. PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm’s audit client.¹⁹ A firm’s independence obligation with respect to an audit client encompasses not only an obligation to satisfy the independence criteria in the rules and standards of the PCAOB, but also an obligation to satisfy all other applicable independence criteria, including those in the Commission’s rules and regulations under the federal securities laws.²⁰ Under PCAOB standards, “[i]ndependent auditors should not only be independent in fact; they should avoid situations that may lead outsiders to doubt their independence.”²¹

40. Rule 2-01(b) of Regulation S-X sets forth the SEC’s general standard of auditor independence.²² “The Commission will not recognize an accountant as independent, with respect to an audit client, if the accountant is not, or a reasonable investor with knowledge of all relevant facts and circumstances would conclude that the accountant is not, capable of exercising objective and impartial judgment on all issues encompassed within the accountant’s engagement.”²³ When considering that standard of independence, the Commission, among other things, looks at whether a relationship or the provision of a service creates a mutual or conflicting interest between the accountant and the audit client.²⁴

¹⁹ See PCAOB Rule 3520, *Auditor Independence*; AS 1005, *Independence*.

²⁰ See PCAOB Rule 3520 n.1; see also AS 1005.05-.06.

²¹ AS 1005.03.

²² See SEC Regulation S-X, Preliminary Note to Rule 2-01, 17 C.F.R. § 210.2-01.

²³ SEC Regulation S-X, Rule 2-01(b).

²⁴ See SEC Regulation S-X, Preliminary Note to Rule 2-01.

41. Rule 2-01(c) of Regulation S-X sets forth a non-exclusive specification of circumstances inconsistent with the standard set forth in Rule 2-01(b).²⁵ Rule 2-01(c)(5) provides that an accountant is not independent of an audit client if, at any point during the audit and professional engagement period, the accountant provides any service or product to an audit client for a contingent fee or a commission, or receives a contingent fee or commission from an audit client.²⁶ The audit and professional engagement period includes the period covered by any financial statements being audited or reviewed.²⁷ It also includes the period of the engagement to audit or review the audit client's financial statements, which begins with the earlier of the agreement to perform audit or review services or the start of those procedures, and ends when the audit client or the accountant notifies the SEC that the client is no longer that accountant's audit client.²⁸ PCAOB Rule 3521, *Contingent Fees*, likewise states that "[a] registered public accounting firm is not independent of its audit client if the firm, or any affiliate of the firm, during the audit and professional engagement period, provides any service or product to the audit client for a contingent fee or a commission, or receives from the audit client, directly or indirectly, a contingent fee or commission."²⁹

42. As noted above, the December 10, 2018 Pre-Audit Engagement Agreement required Haoxin to review Auditor B's draft work papers and to "pre-audit" Gridsum's financial statements and related information. The Firm and Zhu, who executed the agreement on behalf of Haoxin, understood the term "pre-audit" to mean performing audit procedures on Gridsum's financial statements. The Pre-Audit Engagement Agreement also stated that Gridsum "will intend" to engage Haoxin as its external auditor, but it did not commit Gridsum to doing so.

43. According to the Pre-Audit Engagement Agreement, Gridsum was required to pay a fixed fee to Haoxin. However, the agreement also provided that, "if after the execution of the Agreement, [Gridsum] engages [Haoxin] as its independent auditor and signs the audit engagement letter, this Agreement shall become invalid immediately, and any fee paid by [Gridsum] would offset the audit fee that [Gridsum] shall pay [Haoxin] afterwards." This arrangement created an incentive for Haoxin to perform its audit procedures under the Pre-

²⁵ See SEC Regulation S-X, Rule 2-01(c).

²⁶ See SEC Regulation S-X, Rule 2-01(c)(5).

²⁷ See SEC Regulation S-X, Rule 2-01(f)(5); see also PCAOB Rule 3501(a)(iii).

²⁸ See *id.*

²⁹ PCAOB Rule 3521.

Audit Engagement Agreement in a manner that would induce Gridsum to retain Haoxin as its auditor, allowing Haoxin to collect additional fees.

44. Before Haoxin was engaged as Gridsum's external auditor, Liu prepared a presentation that Ma delivered to Gridsum's audit committee on January 3, 2019. The presentation included the following language: "Our work is substantially complete and we expect to provide an unqualified audit opinion on the consolidated financial statements of Gridsum Holding Inc., subject to any changes management, you or the board may make to the published information before the planned release date...." As of January 3, 2019, Gridsum still had not committed to engaging Haoxin as its external auditor.

45. Three days later, on January 6, 2019, Gridsum engaged Haoxin as its external auditor and executed the Audit Engagement Agreement. On the same day, Haoxin billed Gridsum for an amount approximating the remainder of the audit fee noted in the Audit Engagement Agreement. On the next day, January 7, 2019, Liu authorized, and Ma concurred in, the issuance of Haoxin's audit report containing an unqualified audit opinion on Gridsum's 2015-2017 financial statements.

46. At the time Haoxin issued its unqualified opinion, the Firm, Liu, and Ma were not independent of Gridsum within the meaning of Rule 2-01 of SEC Regulation S-X. They had compromised their independence by informing Gridsum's audit committee—before Gridsum had actually engaged, or had even committed to engage, Haoxin as its external auditor—that they expected the Firm to issue an unqualified opinion. Under these circumstances, no reasonable investor would conclude that Haoxin, Liu, and Ma were capable of exercising objective and impartial judgment once Haoxin became Gridsum's external auditor. As a result, Haoxin, Liu, and Ma violated PCAOB Rule 3520 and AS 1005.

47. Haoxin further impaired its independence by effectively entering into a contingent fee arrangement with Gridsum. As explained above, the Pre-Audit Engagement Agreement required Haoxin to perform audit procedures on Gridsum's 2015-2017 financial statements but conditioned Haoxin's receipt of additional fees on being retained as Gridsum's external auditor. The timing and circumstances of Haoxin's actual retention demonstrate that such retention, in turn, was conditioned on the Firm's assuring Gridsum's audit committee that the Firm expected to issue an unqualified opinion. The contingent fee arrangement that was effectively created—payment of the additional fees conditioned on the issuance of an unqualified audit opinion—was inconsistent with Rule 2-01(c)(5) of Regulation S-X and violated PCAOB Rule 3521 and AS 1005.

48. Zhu, who executed both the Pre-Audit Engagement Agreement and the Audit Engagement Agreement on behalf of Haoxin, knew or was reckless in not knowing, that the

terms, timing, and performance of those agreements created an improper contingent fee structure. By executing those agreements, he directly and substantially contributed to Haoxin's violations of PCAOB Rule 3521 and AS 1005, in violation of PCAOB Rule 3502.

G. Ma Violated PCAOB Rules and Auditing Standards in Connection with Her Engagement Quality Review of the Gridsum Audits

49. In an audit, the engagement quality reviewer is responsible for evaluating the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.³⁰ Among other things, the engagement quality reviewer should: (1) evaluate the significant judgments that relate to engagement planning; (2) evaluate the engagement team's assessment of, and audit responses to, significant risks identified by the engagement team or the engagement quality reviewer; (3) review the engagement team's evaluation of the firm's independence in relation to the engagement; and (4) review the engagement completion document for the audit.³¹ The engagement quality reviewer should also evaluate whether the engagement documentation that he or she reviewed indicates that the engagement team responded appropriately to significant risks and supports the conclusions reached by the engagement team with respect to the matters reviewed.³²

50. The engagement quality reviewer may provide concurring approval of issuance of an audit report only if, after performing the engagement quality review with due professional care, he or she is not aware of a significant engagement deficiency.³³ "Due professional care requires the auditor to exercise *professional skepticism*. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence."³⁴

³⁰ See AS 1220.09.

³¹ See *id.* ¶ .10(a), (b), (d), (e).

³² See *id.* ¶ .11.

³³ See *id.* ¶ .12 and Note ("A significant engagement deficiency in an audit exists when (1) the engagement team failed to obtain sufficient appropriate evidence in accordance with the standards of the PCAOB, (2) the engagement team reached an inappropriate overall conclusion on the subject matter of the engagement, (3) the engagement report is not appropriate in the circumstances, or (4) the firm is not independent of its client.").

³⁴ AS 1015.07, *Due Professional Care in the Performance of Work* (emphasis in original).

51. “Documentation of an engagement quality review should be included in the engagement documentation.”³⁵ That documentation should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, including, but not limited to, information that identifies the documents reviewed by the engagement quality reviewer.³⁶

52. In performing the engagement quality reviews for the Gridsum Audits and evaluating the significant judgments made by the engagement team and the related conclusions reached, Ma failed to identify numerous significant engagement deficiencies. In particular, she failed to identify that the engagement team had not performed necessary audit procedures and instead had improperly relied on draft work papers prepared by Auditor B. Ma also failed to identify the independence impairments described above.

53. As a result, Ma failed to exercise due professional care and professional skepticism and failed to perform her engagement quality reviews in accordance with PCAOB standards.³⁷

54. Additionally, Ma failed to properly document her engagement quality review. Indeed, she failed to identify any documents that she reviewed as part of her engagement quality review. As a result, Ma violated AS 1220.

H. The Firm, Liu, Ma, and Sun Violated Audit Documentation Requirements, and Liu, Ma, and Sun Violated Ethics Rules

i. Audit Documentation

55. PCAOB standards provide that the auditor must prepare audit documentation in connection with each engagement conducted pursuant to the standards of the PCAOB.³⁸ The auditor should prepare audit documentation in sufficient detail to provide a clear understanding of its purpose, source, and the conclusions reached.³⁹ Audit documentation

³⁵ AS 1220.20.

³⁶ *See id.* ¶ .19.

³⁷ *See* AS 1015.07; AS 1220.10-.12.

³⁸ AS 1215.04, *Audit Documentation*.

³⁹ *Id.*

must clearly demonstrate that the work was in fact performed.⁴⁰ This requirement applies to the work of all those who participate in the engagement.⁴¹

56. Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to: (1) understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached; and (2) determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.⁴² In addition, prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report.⁴³

57. As noted above, over one-quarter of Haoxin's audit documentation was essentially identical to, or substantially similar to, Auditor B's draft audit documentation. Yet Haoxin's audit documentation does not indicate that the documented audit procedures had actually been performed by Auditor B, as opposed to Haoxin.

58. Further, Haoxin's audit documentation contains numerous false statements about the audit procedures performed, who performed the work, and the date the work was performed. The audit documentation also contains material omissions. These false statements, inaccuracies, and omissions include, but are not limited to, the following:

- a. Multiple workpapers reviewed by Sun inaccurately reflect that they were prepared by a staff member ("Staff A") who Sun knew was not a member of the Haoxin engagement team;
- b. An Engagement Status Report, signed by Liu, inaccurately reflects the budget and planned or actual dates of activities relating to the Gridsum Audits;
- c. The Supervision, Review, and Approval Form, signed by Liu, Sun, and Ma to reflect their respective approval, satisfaction, or concurrence to issue Haoxin's

⁴⁰ *Id.* ¶ .06.

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.* ¶ .15.

audit report for Gridsum, includes inaccurate information and omits significant items;

- d. The Fraud and Significant Risk Inquiries Form, prepared by Sun and reviewed by Liu to document required fraud inquiries of management and others, includes inaccurate dates of interviews with Gridsum personnel;
 - e. A document entitled “Summary of Inquiry with Predecessor Auditor,” prepared by Liu to document required inquiries of a predecessor auditor, falsely reflects the dates, participants, and substance of communications between Liu and Auditor B personnel; and
 - f. The Engagement Completion Document, signed by Liu, Ma, and Sun, which is required to identify all significant findings or issues in an audit, is blank, inaccurately indicating that there were no significant findings or issues in the Gridsum Audits, when other audit documentation indicates that there were significant findings and issues in the Gridsum Audits.
59. As a result, the Firm, Liu, Ma, and Sun violated AS 1215.

60. In addition, as noted above, Haoxin continued to request and obtain additional draft audit documentation from Auditor B after Haoxin had issued and released its audit opinion on Gridsum’s 2015-2017 financial statements. At least some of the documentation obtained post-issuance was included in the complete and final set of audit documentation that Haoxin assembled for retention for the Gridsum Audits. That late-obtained audit documentation does not accurately indicate who performed the work documented, the date such work was completed, who reviewed the work documented, and the date of any review. For these reasons as well, Haoxin violated AS 1215.

ii. Ethics Violations

61. PCAOB rules require associated persons to comply with PCAOB ethics standards.⁴⁴ Those ethics standards include ET Section 102, *Integrity and Objectivity*, which provides, in part, that an associated person “shall maintain . . . integrity” and “shall not knowingly misrepresent facts” in the performance of professional services.⁴⁵ An associated person knowingly misrepresents facts in violation of ET Section 102 when, for example, he or she knowingly: (1) makes, or permits or directs another to make, materially false and

⁴⁴ See PCAOB Rule 3500T(a), *Interim Ethics and Independence Standards*.

⁴⁵ ET § 102.01.

misleading entries in an entity's records; or (2) signs, or permits or directs another to sign, a document containing materially false and misleading information.⁴⁶

62. Liu, Ma, and Sun violated PCAOB ethics standards in connection with the Gridsum Audits by repeatedly making materially false or misleading statements in audit documentation, as described above.

I. The Firm Failed to Make Required Audit Committee Communications, and Liu and Zhu Recklessly, and Directly and Substantially, Contributed to That Failure

63. PCAOB Rule 3526, *Communications with Audit Committees Concerning Independence*, requires that prior to accepting an audit engagement, a registered public accounting firm must describe, in writing, to the audit committee of the potential audit client, all relationships between the registered public accounting firm that, as of the date of the communication, may reasonably be thought to bear on independence.

64. Prior to accepting the engagement for the Gridsum Audits, Haoxin did not describe, in writing, to Gridsum's audit committee a significant relationship between Haoxin and Gridsum that bore on independence. Most notably, Haoxin had no communications, written or otherwise, with Gridsum's audit committee about the Pre-Audit Engagement Agreement or its potential effects on Haoxin's independence. As a result, Haoxin violated PCAOB Rule 3526.

65. Liu, as engagement partner on the Gridsum Audits, failed to communicate the potential independence impairment to Gridsum's audit committee before the Firm accepted the engagement, even though he was aware of the Pre-Audit Engagement Agreement. As a result, he recklessly contributed to the Firm's violation of PCAOB Rule 3526. Further, by executing the Audit Engagement Agreement with Gridsum without understanding whether Haoxin had made the required independence communications, Zhu also recklessly contributed to the Firm's violation of PCAOB Rule 3526. Liu and Zhu thereby violated PCAOB Rule 3502.

⁴⁶ See *id.* § 102.02(a), (c).

J. The Firm Violated Quality Control Standards, and Zhu and Ma Knowingly or Recklessly, and Directly and Substantially, Contributed to Those Violations

66. PCAOB rules require a registered public accounting firm and its associated persons to comply with PCAOB quality control standards.⁴⁷ These standards require that a registered public accounting firm have a system of quality control for its accounting and auditing practice.⁴⁸ A firm's system of quality control provides a critical foundation and infrastructure for a firm's audit quality as it should "ensure that services are competently delivered and adequately supervised."⁴⁹ "A system of quality control is broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality."⁵⁰

67. As described below, Haoxin failed to suitably design and effectively apply policies and procedures to provide reasonable assurance concerning (i) independence, integrity, and objectivity; (ii) client acceptance and continuance; and (iii) engagement performance. Zhu and Ma knowingly or recklessly, and directly and substantially, contributed to the Firm's violations of the PCAOB quality control standards.

i. Haoxin's System of Quality Control Failed to Provide Reasonable Assurance with Respect to Independence, Integrity, and Objectivity

68. A registered public accounting firm should establish quality control policies and procedures to provide the firm with reasonable assurance that personnel maintain independence (in fact and in appearance) in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.⁵¹ With respect to independence, the Firm and its personnel must be free from any obligation to or interest in the client, its management, or its owners.⁵²

⁴⁷ See PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁴⁸ See Quality Control Standard 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁴⁹ *Id.* at § 20.02.

⁵⁰ *Id.* at § 20.03.

⁵¹ *Id.* at § 20.09.

⁵² *Id.* at § 20.10.

69. The repeated failures of Haoxin and its personnel to act with integrity and maintain independence from Gridsum illustrate the significant deficiencies in Haoxin's system of quality control in those areas. As a result, Haoxin violated QC § 20.09.

ii. Haoxin's System of Quality Control Failed to Provide Reasonable Assurance with Respect to Client Acceptance

70. PCAOB quality control standards require that a registered public accounting firm establish quality control policies and procedures for deciding whether to accept a client relationship and whether to perform a specific engagement for that client.⁵³ Such policies and procedures should provide reasonable assurance that the firm undertakes only those engagements that the firm can reasonably expect to be completed with professional competence, and appropriately considers the risks associated with providing professional services in the particular circumstances.⁵⁴

71. As explained above, Haoxin decided to accept Gridsum as its audit client and rely primarily on another auditor's work papers to conduct its audit of three years of financial statements. Further, when making that decision, Haoxin failed to appropriately consider the risks of accepting Gridsum as a client, given Auditor A's withdrawal of its audit opinion on Gridsum's 2016 financial statements, the concerns Auditor A had identified in attempting to conduct its audit of Gridsum's 2017 financial statements, and the inability of Auditor B to complete its audits of Gridsum's 2015-2017 financial statements. The flaws in Haoxin's approach to deciding whether to accept the Gridsum engagement illustrate that the Firm's policies and procedures failed to provide reasonable assurance that the Firm (1) undertook only those engagements that it could reasonably expect to be completed with professional competence; and (2) appropriately considered the risks associated with providing professional services in particular circumstances. As a result, Haoxin violated QC §§ 20.14-.15.

iii. Haoxin's System of Quality Control Failed to Provide Reasonable Assurance with Respect to Engagement Performance

72. A registered public accounting firm should also establish quality control policies and procedures 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.⁵⁵ Quality control policies and procedures for engagement

⁵³ *Id.* at § 20.14.

⁵⁴ *Id.* at § 20.15.

⁵⁵ *Id.* at § 20.17.

performance encompass all phases of the design and execution of an engagement.⁵⁶ Such policies and procedures should also provide reasonable assurance that personnel refer to appropriate authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, including when dealing with complex, unusual, or unfamiliar issues.⁵⁷

73. The numerous deficiencies in Haoxin’s engagement performance and documentation outlined above illustrate that Haoxin’s system of quality control did not provide the Firm with reasonable assurance that the work performed by engagement personnel met applicable professional standards and regulatory requirements. As a result, Haoxin violated QC §§ 20.17-.19.

iv. Zhu and Ma Knowingly or Recklessly, and Directly and Substantially, Contributed to Haoxin’s Quality Control Failures

74. At all relevant times, Zhu was the head of the Firm and the individual ultimately responsible for the assignment of quality control responsibilities within the Firm. Zhu knowingly or recklessly contributed to the Firm’s quality control failures, in violation of PCAOB Rule 3502, because he assigned Ma to design and maintain the Firm’s system of quality control without appropriately considering Ma’s proficiency to serve in that role, and by not appropriately supervising her.

75. Ma knowingly or recklessly contributed to the Firm’s quality control failures, in violation of PCAOB Rule 3502, because she failed to design and maintain a system of quality control for the Firm that complied with PCAOB standards.

K. The Firm and Zhu Failed to Cooperate with the Division’s Investigation

76. The Board may conduct investigations pursuant to Section 105(b) of the Act and PCAOB rules into acts or practices that may violate any provision of the Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports, or professional standards.

77. The Act authorizes the Board to sanction a registered firm or any of its associated persons if they “refuse[] to testify, produce documents, or otherwise cooperate with

⁵⁶ *Id.* at § 20.18.

⁵⁷ *Id.* at § 20.19.

the Board in connection with an investigation.”⁵⁸ PCAOB rules similarly authorize sanctions for a registered firm or associated person who has “knowingly made any false material declaration.”⁵⁹

78. In early March 2022, the Division requested that Haoxin produce audit documentation for the Gridsum Audits. Nearly two months later, the Firm produced that documentation, which included (i) two revenue workpapers indicating that they had been prepared by a Haoxin staff auditor, Staff A, and (ii) an audit program indicating that Staff A performed substantially all the “sales” audit procedures described in the audit program. Further, in late June 2022, in responding to a Division request regarding Firm personnel, the Firm indicated that Staff A was a Haoxin engagement team member on the Gridsum Audits, was assigned to “Sales & AR,” and had charged nearly 300 “Working Hours” in the Gridsum Audits. On August 24, 2022, the Board issued an accounting board demand to Haoxin, incorporating all of the previous requests for documents from the Firm, in response to which the Firm did not revise or supplement the aforementioned documentation.

79. Based on Haoxin’s responses to the Division’s requests and accounting board demand, the Division scheduled the testimony of Staff A and traveled to Hong Kong to conduct that and other testimony. However, the day before the Division was to take Staff A’s testimony, Zhu, during his testimony, informed the Division for the first time that Staff A was not involved in the Gridsum Audits and that Staff A performed no audit procedures in those audits.

80. At the time Haoxin produced the audit documentation for the Gridsum Audits to the Division, Zhu knew that Staff A had not participated in the Gridsum Audits. Nonetheless, with the help of an assistant, Zhu prepared the response to the Division that falsely indicated that Staff A had charged hundreds of hours to the Gridsum Audits, working in an area of significant risk. Zhu falsified the Firm’s response to the Division to maintain consistency with the Firm’s audit documentation, which also falsely indicated that Staff A had performed work in that area of significant risk. Accordingly, the Firm and Zhu failed to cooperate with a PCAOB investigation.

⁵⁸ Section 105(b)(3)(A) of the Act.

⁵⁹ PCAOB Rule 5110(a)(2), *Noncooperation with an Investigation*; see also PCAOB Rule 5300(b), *Sanctions*.

IV.

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 Respondents' Offers.

Accordingly, it is hereby ORDERED, effective immediately, that:

- A. Pursuant to Sections 105(b)(3)(A) and/or 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Shandong Haoxin Certified Public Accountants Co., Ltd., LIU Kun, MA Yao, SUN Penghuan, and ZHU Dawei are hereby censured.
- B. Pursuant to Sections 105(b)(3)(A) and/or 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), LIU Kun, MA Yao, SUN Penghuan, and ZHU Dawei are each barred from being 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).⁶⁰
- C. Pursuant to PCAOB Rule 5302, LIU Kun, MA Yao, and SUN Penghuan may file petitions for Board consent to associate with a registered public accounting firm after the expiration of the following time periods from the date of this Order: LIU Kun—four years; MA Yao—two years; and SUN Penghuan—one year.
- D. If MA Yao is permitted to associate again with a registered public accounting firm, pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a one-year period from the date her bar is terminated, Ma's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Ma shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in AS 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in AS 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or

⁶⁰ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Liu, Ma, Sun, and Zhu. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

engagement quality reviewer, but differently denominated (such as “lead partner,” “practitioner-in-charge,” or “concurring partner”); (4) exercise authority, or supervise the work of another person exercising authority, to either sign a registered public accounting firm’s name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; (5) assist the engagement partner in fulfilling his or her responsibilities under paragraph 4 of AS 1201; (6) serve, or supervise the work of another person serving, as the “other auditor,” or “another auditor,” as those terms are used in AS 1205, *Part of the Audit Performed by Other Independent Auditors*; or (7) participate in designing, establishing, implementing, maintaining, or monitoring compliance with a registered firm’s system of quality control.

- E. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), LIU Kun, MA Yao, and SUN Penghuan are required to complete, before filing a petition for Board consent to associate with a registered firm, fifty hours of continuing professional education (“CPE”) in subjects that are directly related to the audits of issuer financial statements under PCAOB standards (such hours shall be in addition to, and shall not be counted in, the CPE they are required to obtain in connection with any professional license).
- F. Pursuant to Sections 105(b)(3)(A) and/or 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), civil money penalties are imposed on the Firm and Individual Respondents in the following amounts: (i) Shandong Haoxin Certified Public Accountants Co., Ltd.—\$750,000; (ii) LIU Kun—\$100,000; (iii) MA Yao—\$50,000; (iv) SUN Penghuan—\$20,000; and (v) ZHU Dawei—\$20,000.
1. All funds collected by the PCAOB as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act.
 2. Each Respondent shall pay the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Division staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier’s check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies the Firm or the 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.

3. If timely payment is not made, additional interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
4. With respect to any civil money penalty amounts that Respondents shall pay pursuant to this Order, Respondents 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 Respondents' payment of the civil money penalty pursuant to this Order, in any private action brought against Respondents based on substantially the same facts as set out in the findings in this Order.
5. The Firm understands that 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), following written notice to the Firm at the address on file with the PCAOB at the time of the issuance of this Order. Liu, Ma, and Sun understand that their failure to pay the civil money penalty imposed upon them may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b). Zhu understands that his failure to pay the civil money penalty imposed on him may alone be grounds to deny any request for leave to file a petition to terminate a bar pursuant to PCAOB Rule 5302(c).
6. Zhu and Ma acknowledge that the determination to accept their Offers is contingent upon the accuracy and completeness of the financial information they provided to the Division. Zhu and Ma also acknowledge that, if at any time following this settlement, the Division obtains information indicating that any financial information provided by them—including, but not limited to, any information concerning assets, income, liabilities, or net worth—was fraudulent, misleading, inaccurate, or incomplete in any material respect as of the time such information was provided, then at any time following entry of this Order (1) the Board may institute a disciplinary proceeding for noncooperation with an investigation under PCAOB Rule 5110 and/or (2) the

Division may petition the Board to (a) reopen this matter to consider whether Zhu or Ma provided accurate and complete financial information at the time such information was provided to the Division; and (b) seek an order directing payment of the maximum civil money penalty allowable under the law or any lesser amount determined to be appropriate. No other issue shall be considered in connection with this petition other than whether the financial information provided by Zhu or Ma was fraudulent, misleading, inaccurate, or incomplete in any material respect; and, if so, whether a civil money penalty should be ordered up to the maximum civil money penalty allowable under the law. Zhu and Ma may not, by way of defense to any such petition: (i) contest the findings in this Order; (ii) assert that payment of a civil money penalty should not be ordered; (iii) contend that the amount of the civil money penalty to be ordered should be less than \$120,000 as to Zhu, and \$75,000 as to Ma, which is specified herein as the amount the penalties would have been, based on Zhu's and Ma's conduct and without consideration of Zhu's and Ma's financial resources; or (iv) put forward any other contention or assert any defense to liability or remedy, including, but not limited to, any defense based on statute of limitations or any other time-related defense, other than to contend (a) that Zhu and Ma did not provide financial information that was fraudulent, misleading, inaccurate, or incomplete in any material respect, or (b) that a civil money penalty should not be ordered in an amount higher than \$120,000 as to Zhu and \$75,000 as to Ma.

G. Pursuant to Section 105(c)(4)(C), (F), and (G) of the Act and PCAOB Rule 5300(a)(3), (6), (7), and (9), and as detailed in the following specific provisions, Shandong Haoxin Certified Public Accountants Co., Ltd.'s activities, functions, and operations are limited; and Haoxin shall undertake remedial steps, conduct training, and appoint an independent monitor:

1. Definitions: The following definitions shall apply to the provisions of this section:
 - a. *Immediate Practice Limitations*: The limitations imposed on Haoxin's audit practice pursuant to subsection G.2.
 - b. *Interim Certificate of Compliance*: A certificate submitted by Haoxin to the PCAOB, after review and approval by the Independent Monitor, certifying that certain requirements of this Order have been fulfilled pursuant to subsection G.6.

- c. *Interim Compliance Date*: The date on which Haoxin submits the Interim Certificate of Compliance. In any event, the Interim Compliance Date shall not be earlier than one year after the date of this Order.
 - d. *Pre-Issuance Review*: Review of audits performed by Haoxin pursuant to subsection G.2(b).
 - e. *Pre-Issuance Reviewer*: An individual who: (i) is not associated with the Firm but is an associated person of another PCAOB-registered firm; (ii) has experience in the conduct of audits pursuant to PCAOB standards; and (iii) performs Pre-Issuance Reviews pursuant to subsection G.2(b).
 - f. *Final Certificate of Compliance*: A certificate submitted by Haoxin to the PCAOB, after review and approval by the Independent Monitor, certifying that all requirements of this Order have been fulfilled pursuant to subsection G.7.
 - g. *Final Compliance Date*: The date on which Haoxin submits the Final Certificate of Compliance.
 - h. *Independent Monitor*: An independent monitor retained by Haoxin to monitor, evaluate, and report on the Firm's compliance with the requirements of this Order pursuant to subsection G.4.
 - i. *Monitoring Period*: The period of the Independent Monitor's required retention by Haoxin, ending on the Final Compliance Date.
 - j. *Undertakings*: Actions required by subsection G.3.
2. Immediate Practice Limitations: From the date of this Order to the dates set forth in subsections a and b below, Haoxin shall be subject to the following Immediate Practice Limitations:
- a. *Prohibition on Engagements to Prepare or Issue Audit Reports for New Clients Before the Interim Compliance Date*. Prior to the Interim Compliance Date, the Firm shall be prohibited from accepting engagements to prepare or issue audit reports for new clients who are "issuers," as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii), and who are "brokers" or "dealers," as those terms are defined by PCAOB Rules 1001(b)(iii) and 1001(d)(iii), and shall be

prohibited from accepting engagements in which the Firm would “play a substantial role in the preparation or furnishing of an audit report,” as that term is defined by PCAOB Rule 1001(p)(ii).

- b. *Pre-Issuance Review.* From the date of the Order until the Final Compliance Date, Haoxin shall arrange for one or more Pre-Issuance Reviewers to conduct a pre-issuance quality control monitoring review for each issuer, broker, or dealer audit, in which the Firm prepares or issues an audit report or plays a substantial role in the preparation or furnishing of an audit report (a “PCAOB Engagement”).⁶¹ The purpose of each Pre-Issuance Review shall be to support the Firm in identifying deficiencies, if any, in the application of PCAOB rules or standards, and adequately addressing those deficiencies prior to the issuance of the audit report. The review described in this paragraph must be in addition to the Engagement Quality Review required by AS 1220, *Engagement Quality Review*.

3. Undertakings: Haoxin shall carry out the following Undertakings:

- a. *Executed Acknowledgement.* Within 10 days of the date of this Order, Haoxin shall circulate this Order (in both English and Chinese) to all partners and staff of the Firm. Each of the Firm’s partners and staff shall review this Order and, within 20 days of the date of this Order, sign and return to Haoxin’s Managing Partner an acknowledgment that he or she reviewed this Order and understands and will comply with the requirements and obligations thereof. The Firm shall retain such acknowledgements for seven years.
- b. *Initial Certification.* Within 45 days of the date of this Order, Haoxin shall provide a certification, signed by its Managing Partner, stating that personnel in the Firm’s PCAOB Engagements Group⁶² have received 24 hours of additional training regarding independence, integrity, and objectivity; client acceptance and continuance; and professional

⁶¹ See PCAOB Rule 1001(p)(ii).

⁶² The Firm’s PCAOB Engagements Group includes any partner, director, manager, employee, or contractor of the Firm who spends more than 20 hours in any year performing or supervising procedures on audits and reviews governed by PCAOB rules and standards.

standards and regulatory requirements for audits under PCAOB standards.

- c. *Policies and Procedures.* Haoxin shall conduct a review of its quality control policies and procedures and determine whether modifications should be made, or additional policies and procedures should be adopted, concerning: (i) independence, integrity, and objectivity; (ii) acceptance and continuance of clients and engagements; and (iii) engagement performance, especially with respect to sufficient appropriate audit evidence, audit documentation, engagement quality review, and use of the work of other auditors. No later than 90 days from the date of the Order, the Firm shall submit a written report to Division staff and the Independent Monitor summarizing its review, attaching any new or modified policies and procedures in the areas enumerated above, and, with respect to any of the areas enumerated above, in which modifications will not be made and additional policies and procedures will not be adopted, providing an explanation concerning why new or modified policies and procedures are not required (“QC Report”).
- d. *Training.* In addition to the training required in paragraph G.3(b), within one year after the date of this Order, Haoxin shall provide to all personnel in the Firm’s PCAOB Engagements Group, as well as to other Firm personnel who are or will be involved in PCAOB Engagements, 40 hours of training concerning PCAOB rules and standards, including: (i) integrity and objectivity; (ii) independence; (iii) audit evidence; (iv) audit documentation; (v) engagement quality review; (vi) supervision; and (vii) the use of the work of other auditors. During each year thereafter until the end of the Monitoring Period, the Firm shall provide to personnel in its PCAOB Engagements Group, and to other personnel who are or will be involved in PCAOB Engagements, at least 25 hours of training concerning the above topics.
- e. *Certifications.* Until the Final Compliance Date, Haoxin shall obtain annually from each individual involved in PCAOB Engagements a signed certification stating that the individual, during the prior year, (i) has complied with all applicable Firm policies and procedures; (ii) has cooperated with the Independent Monitor and all internal and external reviews and inspections of audit work governed by PCAOB standards; and (iii) is not aware of, or has reported to Firm management or the

Independent Monitor, any violations of PCAOB rules and standards of which the individual has become aware. The Firm shall retain such certifications for seven years.

4. Independent Monitor:

- a. *Selection, Retention, and Term.* Haoxin shall retain and pay the fees and reasonable expenses for a third-party Independent Monitor, not unacceptable to Division staff, who has experience with public company reporting in the United States and is knowledgeable concerning PCAOB rules and standards. Within 60 days of the date of this Order, the Firm shall submit the name, qualifications, and proposed terms of engagement of the Independent Monitor to Division staff. The Firm may not retain as Independent Monitor any person who has been employed by or had a professional relationship with the Firm or any audit client of the Firm in the previous two years; and the Firm shall require the Independent Monitor to agree not to enter into any employment or other professional relationship with the Firm or any audit client of the Firm for two years following the expiration of the Monitoring Period. The Independent Monitor shall not be any individual who conducts, or will conduct, or who is employed by the firm that conducts or will conduct, any Pre-Issuance Reviews for Haoxin. The Monitoring Period shall end as of the Final Compliance Date. The Independent Monitor shall have unobstructed access to all Firm-related information needed to carry out his or her responsibilities as set forth in this Order.
- b. *Monitor QC Report.* The Independent Monitor shall review the QC Report and determine whether, as supplemented and modified, Haoxin's policies and procedures appear reasonably designed to ensure compliance with PCAOB rules and standards. No later than 60 days after receiving the QC Report, the Independent Monitor shall provide a report ("Monitor QC Report") to the Firm and Division staff setting out the Independent Monitor's recommendations concerning any additional policies or procedures or modifications to policies or procedures that should be made to reasonably assure compliance with PCAOB rules and standards then in effect. The Firm shall adopt the Independent Monitor's recommendations as soon as practicable, except that the Firm may notify the Independent Monitor within 30 days of receiving the Monitor QC Report of any recommendations contained therein that the Firm believes

to be unnecessary, impractical, unduly burdensome, or outside the scope of this Order, and the bases of the Firm's objection(s). In connection with that notification, the Firm may propose alternative policies and procedures that it believes will achieve the objectives of the recommendations contained in the Monitor QC Report. The Firm and the Independent Monitor shall engage in good-faith negotiations concerning any objection raised by the Firm, but if the Firm and the Independent Monitor are unable to come to agreement within 45 days, the Firm shall be required to adopt the Independent Monitor's recommendations to which it objects.

- c. *Additional Responsibilities.* The Independent Monitor shall have, and the engagement agreement between Haoxin and the Independent Monitor shall provide for the Independent Monitor to have, the following additional powers and responsibilities: (i) to review and assess the Firm's quality control system, including but not limited to its policies, procedures, and practices relating to audit documentation (including the assembly of a complete and final set of audit documentation for retention ("archiving")) and ethics and integrity; (ii) to monitor the Firm's compliance with the Immediate Practice Limitations; (iii) to monitor the performance and results of the Pre-Issuance Reviews that are performed pursuant to subsection G.2(b); (iv) to review and assess the Firm's process for training its PCAOB Engagements Group and other personnel who are or will be involved in PCAOB Engagements, including the training materials used and the conduct of the training sessions; (v) to monitor the Firm's implementation of the Undertakings described in subsection G.3; (vi) to review and assess the results of any internal or third-party review or inspection of the Firm that occurs during the Monitoring Period of audit or review work governed by PCAOB standards or that relates to any aspect of Haoxin's quality control system (including reviewing and assessing any inspection comments and responses to comments); (vii) to make recommendations to the Firm concerning improvements to its policies, procedures, or practices in light of any of the Independent Monitor's activities; (viii) to take steps to provide reasonable assurance that the Firm's Managing Partner and other leaders of the Firm are competent and qualified to perform the tasks they have undertaken or have been assigned; (ix) to take steps to provide reasonable assurance that Zhu, Liu, Ma, and Sun do not violate the terms of their bars, which, among other effects, prohibit them from, in connection with the

preparation or issuance of any audit report, as defined in Section 110(2) of the Act and PCAOB Rule 1001(a)(vi), (1) sharing in the profits of, or receiving compensation in any other form from, the Firm;
(2) participating as an agent or otherwise on behalf of the Firm in any activity of the Firm; and (x) to take steps to provide reasonable assurance that the Firm and all Firm personnel comply with the terms of this Order.

5. Documentation and Reporting:

- a. *Documentation Requirements.* During the Monitoring Period, the Firm shall maintain documentation sufficient to describe in reasonable detail all steps that it has taken to comply with Section IV.G of this Order. The Firm shall make such documentation available at any time to the Independent Monitor or Division staff, upon reasonable request, and shall retain such documentation for two years after the Final Compliance Date.
- b. *Reporting Requirements.* No later than six months from the date of this Order, the Firm shall submit to the Independent Monitor and Division staff a report: (i) detailing its progress in implementing and complying with the Undertakings and other requirements of this Order; (ii) identifying any recommendations that the Independent Monitor has made to the Firm and the Firm's response to those recommendations; and (iii) identifying any noncompliance by the Firm with this Order or any material noncompliance by the Firm with PCAOB rules and standards it has identified in its audit and review work. The Independent Monitor shall review and evaluate the report and, within 60 days of the receipt of the report, provide a separate report to Division staff, with a copy to the Firm: (i) describing the Independent Monitor's work during the previous six months; and (ii) concurring with the Firm's report or listing the points of non-concurrence. The Firm shall make subsequent reports of an identical nature no later than one year from the date of this Order and every six months thereafter until the end of the Monitoring Period, all of which shall be subject to the Independent Monitor's review, evaluation, and report as described above.
- c. *Division Staff Access.* Throughout the Monitoring Period, and for a period of two years after the end of the Monitoring Period, Division staff shall have reasonable access to the Independent Monitor and to the content and results of the Independent Monitor's work. The Independent

Monitor shall be required to provide prompt responses to all Division staff requests for documents and information concerning the content and results of the Independent Monitor's work, and neither the Independent Monitor nor the Firm shall assert any basis on which to fail to comply with such requests. The engagement agreement between the Firm and the Independent Monitor shall require the Independent Monitor to comply with the terms of this subsection.

6. Interim Certificate of Compliance: No earlier than ten months after the date of this Order, the Firm may submit to the Independent Monitor (with a copy to Division staff) a report ("Interim Firm Report") stating its intention to submit an Interim Certificate of Compliance to Division staff, and containing a summary of its compliance with this Order and any other supporting material the Firm believes appropriate. Within 45 days of receiving the Interim Firm Report, the Independent Monitor shall submit a report ("Interim Monitor Report") to the Firm and Division staff setting out the Independent Monitor's conclusion concerning whether: (a) the Firm has complied with the Immediate Practice Limitations; (b) the Firm has made substantial progress in implementing the recommendations in the Monitor QC Report; (c) the Firm has taken appropriate steps to ensure compliance by Firm personnel with its policies and procedures, as supplemented and modified; (d) the Firm has made substantial progress in addressing the Independent Monitor's other recommendations; (e) the Firm has made substantial progress in implementing and complying with the Undertakings, including by conducting all required training sessions; (f) the Firm has made substantial progress implementing policies, procedures, and practices to establish and maintain a quality control system that provides reasonable assurance that Firm personnel will comply with PCAOB standards, including with regard to audit documentation (including archiving) and ethics and integrity; and (g) the performance and results of the Pre-Issuance Reviews required by subsection G.2(b) indicate that the Firm is conducting its audit work for issuers substantially in compliance with PCAOB standards. Division staff shall have the right to request documentation and other evidence supporting any original or supplementary Interim Firm Report or Interim Monitor Report, and the Firm and/or the Independent Monitor shall promptly comply with any such requests. Additionally, the Independent Monitor shall inform Division staff with 14 days advance notice of the Independent Monitor's intention to issue the Interim Monitor Report and shall provide the Division with a summary of the Independent Monitor's intended findings, the basis

for those findings, and any draft of the intended report. If the Interim Monitor Report concludes that each of the above conditions has been met, the Firm may submit an Interim Certificate of Compliance to Division staff. If the Interim Monitor Report does not conclude that each of the above conditions has been met, the Firm shall have an opportunity to remediate any deficiencies and submit supplementary Interim Firm Reports every 30 days thereafter, as necessary. The Independent Monitor shall consider any supplementary Interim Firm Reports promptly and shall issue a new Interim Monitor Report when he or she has concluded that each of the above conditions has been met, at which time the procedures above relating to an Interim Certificate of Compliance shall apply. The date on which the Firm submits the Interim Certificate of Compliance to Division staff shall be the Interim Compliance Date. The Interim Compliance Date shall be no earlier than one year after the Date of this Order.

7. Final Certificate of Compliance: No less than one year from the Interim Compliance Date, the Firm may submit to the Independent Monitor (with a copy to Division staff) a report (“Final Firm Report”) stating its intention to submit a Final Certificate of Compliance to Division staff, and containing a summary of its compliance with this Order since the Interim Compliance Date and any other supporting material the Firm believes appropriate. Within 60 days of receiving the Final Firm Report, the Independent Monitor shall submit a report (“Final Monitor Report”) to the Firm and Division staff setting out the Independent Monitor’s conclusion concerning whether: (a) the Firm has adequately implemented the recommendations in the Monitor QC Report; (b) the Firm has taken appropriate steps to ensure compliance by Firm personnel with its policies and procedures, as supplemented and modified; (c) the Firm has adequately addressed the Independent Monitor’s other recommendations; (d) the Firm has implemented and complied with the Undertakings, including by conducting all required training sessions; and (e) the Firm has made adequate progress implementing policies, procedures, and practices to establish and maintain a quality control system that provides reasonable assurance that Firm personnel will comply with PCAOB standards, including with regard to audit documentation (including archiving) and ethics and integrity. Division staff shall have the right to request documentation and other evidence supporting any original or supplementary Final Firm Report or Final Monitor Report, and the Firm and/or the Independent Monitor shall promptly comply with any such requests. Additionally, the Independent Monitor shall inform Division

staff with 14 days advance notice of the Independent Monitor's intention to issue the Final Monitor Report and shall provide the Division with a summary of the Independent Monitor's intended findings, the bases for those findings, and any draft of the intended report. If the Final Monitor Report concludes that each of the above conditions has been met, the Firm may submit a Final Certificate of Compliance to Division staff. If the Final Monitor Report does not conclude that each of the above conditions has been met, the Firm shall have an opportunity to remediate any deficiencies and submit supplementary Final Firm Reports every 30 days thereafter, as necessary. The Independent Monitor shall consider any supplementary Final Firm Reports promptly, and shall issue a new Final Monitor Report when he or she has concluded that each of the above conditions has been met, at which time the procedures above relating to a Final Certificate of Compliance shall apply. The date on which the Firm submits the Final Certificate of Compliance to Division staff shall be the Final Compliance Date.

8. For good cause shown, Division staff may extend any of the procedural dates relating to these undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend, a U.S. federal holiday or official public holiday in the People's Republic of China, the next business day shall be considered the last day.
9. The Firm understands that the failure to satisfy any provision of Section IV.G may constitute a violation of PCAOB Rule 5000 that could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

November 30, 2023