PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of CHOI Chung Chuen, MA Hong Chao, and DONG Chang Ling,

Respondents.

PCAOB Release No. 105-2024-013

March 20, 2024

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

(1) censuring CHOI Chung Chuen (Alex) ("Choi"), MA Hong Chao (Max) ("Ma"), and DONG Chang Ling (Jason) ("Dong") (collectively, "Respondents");

(2) barring Choi and Ma each from being an associated person of a registered public accounting firm;[1]

(3) limiting Dong's activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for a period of one year from the date of this Order;

(4) imposing civil money penalties in the amounts of $75,000 on Choi, $50,000 on Ma, and $25,000 on Dong;

(5) requiring that Choi and Ma each complete twenty hours of continuing professional education ("CPE"), in addition to any CPE required in connection with any professional license, before filing any petition for Board consent to associate with a registered public accounting firm; and

(6) requiring that Dong complete twenty hours of CPE, in addition to any CPE required in connection with any professional license.

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[1] Choi and Ma may each file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

The Board is imposing these sanctions based on its findings that Respondents—three partners of KPMG Huazhen LLP ("KPMG HZ" or the "Firm")—violated PCAOB rules and standards in connection with the Firm's audit of the December 31, 2017 financial statements of Tarena International Inc. ("Tarena").

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 pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, "Offers") that the Board has determined 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 Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order as set forth below.[2]

III.

On the basis of Respondents' Offers, the Board finds that:[3]

A. Respondents

1. **CHOI Chung Chuen (Alex)** is a certified practicing accountant in Hong Kong (license no. P05138) and a partner in KPMG HZ's Beijing office. He was the engagement partner for the Firm's audit of the December 31, 2017 financial statements of Tarena (the "Audit") and,

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[2] 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.

[3] The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

at all relevant times, he 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).

2. **MA Hong Chao (Max)** is a certified public accountant in the State of California (license no. 122230) and in the People's Republic of China (license no. 110002432630), and a partner in KPMG HZ's Beijing office. He was another partner on the Audit, assisting Choi in supervising other engagement team members. At all relevant times, Ma 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. **DONG Chang Ling (Jason)** is a certified information systems auditor, as designated by ISACA (formerly known as the Information Systems Audit and Control Association), and a partner in KPMG HZ's Beijing office. Dong was assigned to the Audit and had overall responsibility for the involvement of the Firm's information risk management ("IRM") personnel on the Audit. At all relevant times, Dong 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. Other Relevant Entities

4. **KPMG Huazhen LLP** is a public accounting firm organized under Chinese law and headquartered in Beijing, People's Republic of China, and has offices throughout China. At all relevant times, KPMG HZ was registered with the Board, pursuant to Section 102 of the Act and PCAOB rules. KPMG HZ reported to the PCAOB that during the period April 1, 2022, through March 31, 2023, the Firm issued 21 audit reports for issuers.

5. **Tarena International, Inc**. (n/k/a TCTM Kids IT Education Inc.)[4] is an exempted company[5] with limited liability incorporated under the laws of the Cayman Islands and headquartered in Beijing, China. Tarena provides education services including information technology ("IT") training courses and non-IT training courses across China. According to its public filings, over 128,000 adult students, and nearly 10,000 children, enrolled in at least one of its courses in 2017. At the time of the Audit, Tarena's American Depository Receipts were

[4] Tarena announced a name change on February 27, 2024. *See* Exhibit 99.1 to Form 6-K (filed Feb. 27, 2024), https://www.sec.gov/Archives/edgar/data/1592560/000110465924027901/tm247364d1_ex99-1.htm.

[5] An "exempted company" is an offshore entity organized under the laws of the Cayman Islands that conducts its business mainly outside of the Cayman Islands. *See, e.g.*, Cayman Islands Companies Act Part VII (Exempted Companies) § 163, *What Companies May Apply to be Registered as Exempted Companies* (2021 Rev.).

traded on the Nasdaq Global Select Market.[6] Tarena is an "issuer" as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

6. This matter involves multiple violations of PCAOB rules and standards by Choi, Ma, and Dong, three KPMG HZ partners who worked on the Audit of Tarena, an education service provider in China.

7. *First*, Choi and Ma failed to obtain sufficient appropriate audit evidence to support Tarena's reported revenue. During the Audit, Choi and Ma planned to test the design and operating effectiveness of Tarena's internal controls in order to rely on them to address, among other things, a fraud risk they had identified related to Tarena potentially recording revenue from fictitious students.

8. However, after learning of numerous unremediated deficiencies in Tarena's IT general controls ("ITGCs"), Choi and Ma did not respond appropriately. Instead, Choi and Ma improperly concluded that these unremediated control deficiencies did not affect their plan to rely on Tarena's revenue-related controls. In particular, Choi and Ma did not revise the control risk assessment and modify the nature, timing, and extent of their substantive revenue testing planned under the assumption that Tarena's revenue-related controls were effective. As a result, Choi and Ma failed to obtain sufficient appropriate audit evidence as to Tarena's reported revenue.

9. *Second*, Choi and Ma also failed to exercise due care and professional skepticism and obtain sufficient appropriate audit evidence to support Tarena's net accounts receivable. Specifically, they did not appropriately evaluate the reasonableness of Tarena's allowance for doubtful accounts, *i.e.*, its bad debt allowance estimate, which they had identified as a significant accounting estimate and as a significant risk. In particular, they did not obtain an adequate understanding of how management developed the estimate, did not appropriately evaluate its reasonableness, and did not adequately consider evidence indicating that the estimate might not be reasonable.

10. *Third*, Dong failed to properly supervise the IT auditors on the Audit, which resulted in Dong's failure to identify several deficiencies in the IT auditors' procedures.

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6 Tarena transferred the listing of its American Depositary Receipts to the Nasdaq Capital Market on November 17, 2023. *See* Exhibit 99.1 to Form 6-K (filed Nov. 16, 2023), https://www.sec.gov/Archives/edgar/data/1592560/000110465923118945/tm2330909d1_ex99-1.htm.

11. Choi, Ma, and Dong's violations occurred in connection with audit procedures for two accounts that Tarena later restated. Specifically, during the following year's audit, KPMG HZ informed Tarena's audit committee that the 2018 engagement team had identified non-compliance or suspected non-compliance with laws and regulations, including (a) Tarena employees' interference with KPMG HZ's anti-fraud procedures for testing the existence of students and (b) acts related to the existence and accuracy of revenue recognition.[7] In response, on April 30, 2019, Tarena disclosed that its audit committee was conducting a review into certain issues concerning revenue recognition at the company. KPMG HZ did not issue a report of Tarena's December 31, 2018 financial statements and was dismissed as Tarena's auditor on December 5, 2019. The audit committee-led investigation ultimately found that Tarena (a) had inflated revenue by, among other means, recording fictitious student account data in the company's systems and prematurely recognizing revenue; and (b) made improper charges against accounts receivable. As reflected in its restatement, Tarena's originally reported net revenue for 2017 was overstated by approximately 13% and its originally reported net accounts receivable for 2017 were overstated by more than 300%.

D. Choi and Ma Failed to Obtain Sufficient Appropriate Audit Evidence to Support Tarena's Reported Revenue

i. Relevant Rules and Standards

12. In connection with the preparation or issuance of an audit report, PCAOB rules require that associated persons of a registered public accounting firm comply with the Board's auditing and related professional practice standards.[8] An auditor is in a position to express an unqualified opinion on the financial statements 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.[9]

13. PCAOB standards provide that, as part of audit planning, the auditor should establish an overall audit strategy.[10] The auditor should modify the overall audit strategy and

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[7] Respondents were also members of the engagement team for the 2018 audit.

[8] *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*. 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 Audit.

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

[10] *See* AS 2101.08, *Audit Planning.*

the audit plan as necessary if circumstances change significantly during the course of the audit, including changes due to a revised assessment of the risks of material misstatement or the discovery of a previously unidentified risk of material misstatement.[11]

14. PCAOB standards also require that an auditor exercise due professional care in planning and performing an audit.[12] Due professional care requires that the auditor exercise professional skepticism—an attitude that includes a questioning mind and a critical assessment of audit evidence—throughout the audit process.[13]

15. PCAOB standards instruct that "[t]he auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure."[14] "[T]he audit procedures that are necessary to address the assessed fraud risks depend upon the types of risks and the relevant assertions that might be affected."[15]

16. The auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing, the auditor should perform tests of those controls.[16]

17. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[17] To be appropriate, audit evidence must be both relevant and reliable in providing support for the conclusions on which the auditor's opinion is based.[18]

18. PCAOB standards provide that if the auditor plans to assess control risk at less than the maximum by relying on controls, and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence

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11 *Id.* at .15.

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

13 *See id.* at .07-.08; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*; AS 2401.13, *Consideration of Fraud in a Financial Statement Audit*.

14 AS 2301.08.

15 *Id.* at .12; *see also* AS 2401.52.

16 AS 2301.13.

17 AS 1105.04, *Audit Evidence*.

18 *Id.* at .06.

that the controls selected for testing are designed effectively and operated effectively during the entire period of reliance.[19] Also, tests of controls must be performed in the audit of financial statements for each relevant assertion for which substantive procedures alone cannot provide sufficient appropriate audit evidence and when necessary to support the auditor's reliance on the accuracy and completeness of financial information used in performing other audit procedures.[20]

19. "When a significant amount of information supporting one or more relevant assertions is electronically initiated, recorded, processed, or reported, it might be impossible to design effective substantive tests that, by themselves, would provide sufficient appropriate evidence regarding the assertions."[21] In these circumstances, obtaining sufficient appropriate audit evidence is usually dependent on the effectiveness of controls over that information.[22]

20. Control risk should be assessed at the maximum level for relevant assertions (a) for which controls necessary to sufficiently address the assessed risk of material misstatement in those assertions are missing or ineffective or (b) when the auditor has not obtained sufficient appropriate evidence to support a control risk assessment below the maximum level.[23]

21. When deficiencies affecting the controls on which the auditor intends to rely are detected, the auditor should evaluate the severity of the deficiencies and the effect on the auditor's control risk assessments.[24] If the auditor plans to rely on controls relating to an assertion but the controls that the auditor tests are ineffective because of control deficiencies, the auditor should (a) perform tests of other controls related to the same assertion as the ineffective controls; or (b) revise the control risk assessment and modify the planned substantive procedures as necessary in light of the increased assessment of risk.[25]

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[19] AS 2301.16.

[20] *Id.* at .17; *see also id*. at .18.

[21] *Id.* at .17, Note.

[22] *See id.*

[23] *Id.* at .33.

[24] *Id.* at .34.

[25] *Id.*

22. If the auditor identifies deficiencies in controls that are intended to address assessed fraud risks, the auditor should take into account those deficiencies when designing his or her response to those fraud risks.[26]

23. "Audit evidence consists of both information that supports and corroborates management's assertions regarding the financial statements . . . and information that contradicts such assertions."[27]

24. If audit evidence obtained from one source is inconsistent with audit evidence obtained from another source, "the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit."[28]

25. When an auditor uses information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to, among other things, test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information.[29]

26. PCAOB standards require an auditor 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.[30]

ii. Background

27. In 2017, Tarena reported in its audited financial statements net revenue of approximately 2 billion Chinese Renminbi ("RMB"). Nearly 97% of Tarena's net revenue was attributable to relatively small tuition transactions with the over 135,000 students enrolled in courses that it offered.

28. Once Tarena entered into a training contract with a student, Tarena personnel at the student's training center inputted the student's contract information into its customer relationship management ("CRM") system, including the student's name, course term, tuition

[26] *Id.* at .12, Note.

[27] AS 1105.02.

[28] *Id.* at .29.

[29] *See id.* at .10.

[30] *See* AS 2810.33-.35, *Evaluating Audit Results*.

fee, and payment terms. Class commencement, repayment, and other relevant information were also updated in the CRM system by the personnel at the training centers.

29. Tuition fees were proportionately recognized as revenue as the training courses were delivered, with the unearned portion of tuition fees being recorded as deferred revenue. Tarena personnel exported a revenue spreadsheet from the CRM system at the end of each month and manually re-calculated tuition revenue and an accounts receivable aging schedule based on the information produced by the CRM system. They then prepared journal entries to record tuition revenue and deferred revenue, with the corresponding accounts receivable, in Tarena's financial accounting system.

30. The accuracy and completeness of the data exported from the CRM system depended on the design and operating effectiveness of certain controls, known as IT application controls ("ITACs"), that Tarena had adopted over approval rights, data transmission, and data accuracy and integrity. The effectiveness of certain of those ITACs, in turn, depended on the proper design and operating effectiveness of the relevant underlying ITGCs.

iii. Choi and Ma's Failure to Appropriately Evaluate Tarena's Revenue-Related Controls Resulted in a Failure to Obtain Sufficient Appropriate Audit Evidence Concerning Tarena's Revenue

a. Choi and Ma's Planning and Risk Assessment

31. Choi and Ma identified a significant risk in connection with the occurrence of Tarena's revenue: the fraud risk that Tarena's management would record fictitious student revenue. Choi and Ma planned to address that fraud risk through reliance on Tarena's controls, including IT controls, and substantive testing.

32. Choi and Ma documented that the Firm's IRM personnel should be included in the Audit because, among other reasons, (a) Tarena's business was dependent on IT processes to maintain its financial reporting and accounting books and records; and (b) the engagement team would be unable to obtain sufficient appropriate audit evidence without reliance on application controls.

33. Choi and Ma planned to use the IRM personnel to obtain an understanding of IT at Tarena and to test the design and operating effectiveness of Tarena's ITGCs and several ITACs related to Tarena's process for recording revenue.

34. Based on their plan to rely on Tarena's controls, Choi and Ma adopted a lower extent of planned substantive testing, as compared to the substantive testing in the prior year's audit in which the Firm did not rely on controls. They also planned to rely on Tarena's controls

to provide assurance as to the accuracy and completeness of the information generated by Tarena's CRM and financial accounting systems.

b. The Engagement Team's Identification of Control Deficiencies

35. Choi, Ma, and their team identified three ITACs as important to the proper recording of tuition revenue. These ITACs were: (1) the interface between the CRM system and financial accounting system transmits accurate and complete data; (2) approval rights have been established for the CRM system; and (3) relevant data is accurate and complete in the CRM system (collectively, the "Tuition Revenue ITACs"). The engagement team concluded that the failure of any of these Tuition Revenue ITACs could impact the accuracy and completeness of tuition-related information in the CRM system and the data in the revenue spreadsheet exported from the CRM system.

36. The engagement team also concluded that the effectiveness of the three Tuition Revenue ITACs was dependent on certain ITGCs (the "ITAC-Relevant ITGCs"). During the Audit, however, the engagement team found that multiple ITAC-Relevant ITGCs were either not designed effectively or were not operating effectively. In fact, IRM staff identified that about one third of the ITAC-Relevant ITGCs were either designed ineffectively or operating ineffectively. Among those deficient ITGCs were (a) controls to prevent employees' ability to directly access and make changes to CRM system data Tarena used to calculate student tuition revenue; and (b) logging, monitoring, or reviewing controls to detect any changes to such data.

37. After identifying the ineffective ITGCs, the IRM staff documented that all of the deficiencies were mitigated by compensating controls or other factors. But the work papers in which the IRM staff purported to document the compensating controls and mitigating factors merely repeated the reasons those ITGCs were ineffective. No one on the engagement team identified or tested any mitigating factors or compensating controls for the deficient ITGCs to support their reliance on the Tuition Revenue ITACs. Choi and Ma did not ensure that, as planned, non-IRM members of the engagement team reviewed IRM personnel's conclusions concerning Tarena's ITGCs and Tuition Revenue ITACs. In fact, an IRM staff person at the assistant manager level, who performed and documented much of the IT control testing, signed off as the sole preparer and sole reviewer of certain testing work papers, with no other IRM staff or other engagement team member properly reviewing that work.

c. Choi and Ma Did Not Respond Appropriately to the Control Deficiencies

38. After learning of the ITGC deficiencies that the engagement team had identified, Choi and Ma did not respond appropriately. Under PCAOB standards, Choi and Ma were required either (a) to perform tests of other controls related to the same assertion(s) as the ineffective ITGCs; or (b) to revise their control risk assessment and modify the planned

substantive procedures as necessary in light of the increased assessment of risk. However, Choi and Ma did neither. Instead, they continued with their controls reliance approach, concluding that, despite the deficiencies identified in ITAC-relevant ITGCs, they could rely on the Tuition Revenue ITACs when evaluating Tarena's tuition revenue.

39. That conclusion was inappropriate given that the three Tuition Revenue ITACs could be relied upon only when the ITAC-relevant ITGCs were designed and operating effectively. Notably, Choi and Ma did not document any support for the conclusion that they could rely on the Tuition Revenue ITACs.

40. In reaching their conclusion that the ITGC deficiencies affecting Tarena's CRM and financial accounting systems did not impact their audit strategy, Choi and Ma did not perform any procedures to determine whether the specific deficiencies were compensated for by other controls or had other mitigating factors.

41. Choi and Ma also did not evaluate whether the nature, timing, and extent of the engagement team's substantive revenue testing needed to be modified.[31] They failed to do so, despite the fact that the nature, timing, and extent of their substantive tests of revenue had been determined under the assumption that Tarena's revenue-related controls were effective, and thus the testing was more limited than it would have been absent that incorrect assumption.

42. In addition, Choi and Ma did not address the implications of the control deficiencies for the reports generated by Tarena's CRM system, from which the engagement team selected samples for revenue testing. Although the engagement team performed some manual testing over the accuracy and completeness of the CRM data, due to the identified deficiencies in the ITGCs, Choi, Ma, and the engagement team could not rely on the accuracy and completeness of the reports drawn from that system absent further work.

43. Furthermore, Choi and Ma did not appropriately evaluate the severity of the ITGC deficiencies. Although Choi and Ma documented that, overall, there was a "[s]ignificant deficiency related to the design and operating effectiveness of [ITGCs] for" Tarena's CRM and financial accounting systems and reported that significant deficiency to Tarena's audit committee, they failed to obtain or provide support for their conclusion that the severity of the ITGC deficiencies was only a significant deficiency, rather than a material weakness.

44. In summary, Choi and Ma failed to exercise due professional care and take appropriate steps after learning of numerous control deficiencies in Tarena's revenue-related IT

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31 *See* AS 2301.06, .34.

controls.[32] As a result, they failed to obtain sufficient appropriate audit evidence to support Tarena's reported revenue, in violation of PCAOB standards.[33]

E. In Evaluating Tarena's Bad Debt Allowance Estimate, Choi and Ma Failed to Obtain Sufficient Appropriate Audit Evidence as to Tarena's Net Accounts Receivable

i. Relevant Rules and Standards

45. PCAOB standards require the auditor to evaluate the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole.[34] Estimates are based on subjective as well as objective factors, and when planning and performing procedures to evaluate accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.[35] The auditor's objective when evaluating accounting estimates is to obtain sufficient appropriate evidential matter to provide reasonable assurance that all accounting estimates that could be material to the financial statements have been developed, those estimates are reasonable in the circumstances, and the accounting estimates are presented in conformity with applicable accounting principles and are properly disclosed.[36]

46. The risk of material misstatement of accounting estimates normally varies with (i) the complexity and subjectivity associated with management's process for preparing accounting estimates, which normally includes accumulating relevant, sufficient, and reliable data on which to base the estimate, developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors, and determining the estimated amount based on the assumptions and other relevant factors; (ii) the availability and reliability of relevant data; (iii) the number and significance of assumptions that are made; and (iv) the degree of uncertainty associated with the assumptions.[37]

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32 *See* AS 1015.01; AS 2401.13.

33 *See* AS 1105.04; AS 2110.74, *Identifying and Assessing Risks of Material Misstatement*; AS 2301.06, .34, .46.

34 AS 2501.04, *Auditing Accounting Estimates*.

35 *Id.*

36 *Id.* at .07.

37 *See id.* at .05.

47. "In evaluating reasonableness, the auditor should obtain an understanding of how management developed the estimate."[38] Based on that understanding, the auditor should then use one or a combination of the following approaches to test the accounting estimate: (1) review and test the process used by management to develop the estimate; (2) develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate; or (3) review subsequent events or transactions occurring prior to the date of the auditor's report.[39] In addition, when evaluating the reasonableness of an estimate, the auditor normally concentrates on key factors and assumptions that are significant to the estimate.[40]

48. "If a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances," "consider the reliability of the representation made," and "consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified."[41] In addition, if management's responses to the auditor's inquiries appear to be "implausible, inconsistent with other audit evidence, imprecise, or not at a sufficient level of detail to be useful, the auditor should perform procedures to address the matter."[42]

ii. Background

49. Tarena's accounts receivable primarily consisted of tuition fees due from students. Accounts receivable were considered past due based on their contractual payment terms. Tarena maintained a bad debt allowance for estimated losses resulting from the inability of its customers to make required payments. Tarena disclosed that it wrote off against the bad debt allowance accounts receivable that it deemed to be uncollectible after all means of collection had been exhausted and the potential for recovery was considered remote. Tarena reported its accounts receivable net of the bad debt allowance.

50. As of December 31, 2017, Tarena's reported net accounts receivable represented approximately 10% of Tarena's total reported assets. Between December 31, 2016, and December 31, 2017, Tarena's gross accounts receivable increased by more than 65%, from

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[38] *Id.* at .10.

[39] *Id.*

[40] *Id.* at .09.

[41] AS 2805.04, *Management Representations*.

[42] AS 2810.08.

approximately RMB 199 million to approximately RMB 330 million.[43] Despite that increase, Tarena decreased its bad debt allowance over the same period from approximately RMB 100 million to approximately RMB 98 million.

iii. Choi and Ma Failed to Exercise Appropriate Professional Skepticism and Due Care in Evaluating the Bad Debt Allowance Accounting Estimate, Resulting in a Failure to Obtain Sufficient Appropriate Audit Evidence for Net Accounts Receivable

51. As described below, Choi and Ma violated PCAOB standards because, after identifying Tarena's bad debt allowance as a significant accounting estimate, they did not obtain an adequate understanding of how management developed the estimate, did not appropriately evaluate its reasonableness, and did not consider evidence indicating that the estimate might not be reasonable.

a. Choi and Ma Did Not Obtain an Adequate Understanding of How Management Developed the Bad Debt Allowance

52. Choi and Ma identified Tarena's bad debt allowance as a significant accounting estimate and concluded that the allowance presented a significant risk of material misstatement for the value of tuition receivables. However, Choi and Ma did not obtain an adequate understanding of how management developed its bad debt allowance estimate.

53. Tarena disclosed that, in establishing its bad debt allowance, it considered "historical losses, the students' financial condition, the amount of accounts receivables in dispute, the accounts receivables aging and the students' payment patterns."[44] In actually calculating the allowance, however, Tarena mechanically applied particular bad debt ratios to different categories of past-due receivables based both on the age of the receivables and the year of enrollment of the students from whom tuition was due ("aging buckets"). Tarena then aggregated the results of applying the various ratios to the receivables in different aging buckets to arrive at its bad debt allowance estimate.

54. To understand how management developed its bad debt estimate, therefore, Choi and Ma needed to understand how management arrived at its various bad debt ratios. They did not do so. Instead, they documented that management used actual cash collections

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43 This increase in gross accounts receivable was multiples of the RMB 11.5 million materiality level set by Choi and Ma.

44 Tarena 2017 Form 20-F at F-16 (filed with the U.S. Securities and Exchange Commission Apr. 30, 2018).

and cash collection forecasts as inputs, but did not obtain an adequate understanding of how management used that information to develop any particular bad debt ratio.

55. Choi, Ma, and the engagement team also did not obtain an adequate understanding of management's basis for its cash collection forecasts, including whether management accumulated relevant, sufficient, and reliable data to arrive at the forecasts, notwithstanding that certain of them appeared unreasonable on their face. For example, for one quarter, management forecast that Tarena would collect the same amount of cash—RMB 6 million—from students enrolled in each of the years 2015, 2016, and 2017, despite the very different ages and gross amounts of those accounts receivable groupings.

56. In short, Choi and Ma did not obtain an adequate understanding of how management arrived at the particular bad debt ratios that drove Tarena's bad debt allowance estimate, despite the bad debt ratios being assumptions that were significant to the accounts receivable estimate. They therefore did not obtain an adequate understanding of how management developed the estimate, in violation of PCAOB standards.[45]

b. Choi and Ma Did Not Respond Appropriately to Contradictory Audit Evidence

57. Choi, Ma, and the engagement team also did not obtain an adequate understanding of the reason for, and did not obtain support for the reasonableness of, the significant decrease in Tarena's bad debt allowance percentage in 2017. To the contrary, Choi and Ma were on notice during the Audit of evidence that appeared to contradict management's decision to decrease the allowance, yet they did not appropriately address that contradictory audit evidence. For example:

> a. As noted above, between year-end 2016 and year-end 2017, Tarena's gross accounts receivable increased by more than 65%, from approximately RMB 199 million to approximately RMB 330 million, yet Tarena's management decreased its bad debt allowance over the same period.
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> b. Similarly, Tarena's reported net revenue increased from approximately RMB 1.6 billion to approximately RMB 2.0 billion, or by 25%, and its total past due accounts receivable increased from approximately RMB 121 million to approximately RMB 199 million, or by 64%, from year-end 2016 to year-end 2017. Yet management decreased Tarena's bad debt expense over the same period.

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45 AS 2501.10; *see also id.* at 04-.05.

c. Management decreased Tarena's bad debt allowance from 50% in 2016 to 30% in 2017 as a percentage of year-end accounts receivable balances. While the engagement team documented reasons for the 20% decrease, including a write-off of RMB 33.7 million of accounts receivable in 2017 (with no write-off in 2016), those reasons accounted for only a small portion of the decrease. Furthermore, the aging of Tarena's accounts receivable worsened in 2017, yet the bad debt allowance as a percentage of aged accounts receivable decreased from 28% in 2016 to 16% in 2017.

d. Tarena significantly increased its cash collection projection for 2018, despite, as Choi and Ma were aware, there being a tighter student loan regulatory environment in China affecting Tarena's potential customer pool.

e. Ma knew that in 2017 management decreased the bad debt ratios for tuition due from students enrolled in 2015 and that management's basis for this adjustment was that it believed actual collections from 2015-enrolled students were better than from students enrolled in prior years. Ma did not obtain adequate support for management's representation and did not consider contradictory information suggesting difficulties in collections from 2015-enrolled students.

f. Shortly before the Firm issued its audit opinion, Choi was informed that the subsequent collections data from early 2018 did not present an "optimistic" situation, potentially requiring a revision of Tarena's bad debt allowance. Yet Choi did not sufficiently question the adequacy of the bad debt allowance, which was not revised.

58. Choi and Ma did not, as required by PCAOB standards, resolve the doubts that this evidence should have raised about the adequacy of Tarena's bad debt allowance or attempt to resolve the inconsistencies between the evidence and management's decision to reduce the bad debt allowance in 2017.[46]

c. Choi and Ma Failed to Evaluate the Reasonableness of the Bad Debt Allowance in Accordance with PCAOB Standards

59. Choi and Ma also did not ensure that the specific procedures the engagement team performed sufficiently addressed the risks associated with the bad debt allowance and accorded with PCAOB standards.

60. Choi, Ma, and the engagement team appeared to attempt to use a combination of the three approaches identified in AS 2501.10 to evaluate the reasonableness of the bad

[46] *See* AS 1105.05, .29; AS 2810.35.

debt allowance estimate. However, they did not appropriately evaluate the estimate using any of the approaches.

61. With respect to reviewing and testing the process used by management to develop the bad debt allowance estimate, Choi and Ma, as noted above, did not obtain an adequate understanding of management's process for arriving at its estimate. For that reason, and also because they did not respond appropriately to contradictory audit evidence that their procedures revealed, Choi and Ma did not appropriately test management's process for developing the estimate.

62. Choi and Ma's testing of management's process for developing the bad debt allowance estimate was deficient for other reasons also, including that the testing used information from the revenue spreadsheet exported from the CRM system. As explained above, due to the identified deficiencies in Tarena's IT controls, Choi, Ma, and the engagement could not rely on the accuracy and completeness of the reports drawn from the CRM system absent further work.

63. Under Choi and Ma's direction, the engagement team also appeared to attempt to develop an independent expectation of the bad debt allowance to corroborate the reasonableness of management's estimate. The engagement team did not perform this procedure with due professional care. For example, the engagement team included information for certain periods that appeared unreasonable. Choi and Ma did not consider whether inclusion of that information rendered their independent expectation unreliable.

64. Moreover, creating an independent expectation only achieves its objective if the auditor uses the result of that procedure to assess the reasonableness of management's estimate. Although the independent expectation procedure that Choi and Ma developed indicated that Tarena's bad debt allowance was understated by an amount that exceeded the materiality level set for the Audit, Ma and the engagement team did not appropriately evaluate whether the difference should be treated as a misstatement and, if so, whether that misstatement was material.

65. Finally, under Choi and Ma's direction, the engagement team reviewed certain subsequent events or transactions occurring prior to the date of the auditor's report. Specifically, Ma and the engagement team compared actual cash collections in the first quarter of 2018 to management's higher cash collection forecast for that quarter, but they did not adequately evaluate the reason for the shortfall or its implications as to the reasonableness of the bad debt allowance estimate. Also, for the reasons stated earlier, including the failure to adequately understand how management developed its collection forecast for the first quarter of 2018, this procedure did not provide evidence of the reasonableness of Tarena's bad debt allowance.

66. In summary, Choi and Ma failed to exercise due care or to obtain sufficient appropriate audit evidence in performing any of the procedures identified in PCAOB standards for evaluating the reasonableness of management's bad debt allowance.[47] Moreover, as a result, Choi and Ma did not perform, or ensure that their engagement team performed, sufficient substantive procedures that were specifically responsive to the significant risk they identified with respect to accounts receivable.[48]

F. Dong Failed to Fulfill His Supervisory Responsibilities

67. PCAOB standards provide that the engagement partner is responsible for the engagement and its performance.[49] Accordingly, the engagement partner is responsible for proper supervision of the work of engagement team members and for compliance with PCAOB standards, including standards regarding using the work of specialists, other auditors, internal auditors, and others who are involved in testing controls.[50] Engagement team members who assist the engagement partner with supervision of the work of other engagement team members also should comply with the requirements of the PCAOB supervision standard with respect to the supervisory responsibilities assigned to them.[51]

68. The engagement partner and, as applicable, others performing supervisory activities should "[r]eview the work of engagement team members to evaluate whether: (1) [t]he work was performed and documented; (2) [t]he objectives of the procedures were achieved; and (3) [t]he results of the work support the conclusions reached."[52] To determine the extent of supervision necessary for engagement team members to perform their work as directed and form appropriate conclusions, the engagement partner and other engagement team members performing supervisory activities should take into account, among other things, the risks of material misstatement.[53]

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47 *See* AS 1015.01; AS 1105.04; AS 2501.10.

48 *See* AS 2301.08; AS 2110.74.

49 *See* AS 1201.03, *Supervision of the Audit Engagement*.

50 *Id.*

51 *Id.* at .04.

52 *Id.* at .05.

53 *See id.* at .06.

69. Dong was the IRM partner on the Audit with overall responsibility for the IRM personnel's involvement and the overall IRM work quality. Accordingly, Dong's role was to assist Choi with supervision over this area of the Audit.[54]

70. Dong assigned an IRM associate director to the engagement. However, Dong himself had minimal involvement in the Audit. Aside from the IRM planning memo, Dong did not review any work papers and did not obtain an understanding during the Audit of the procedures performed, evidence obtained, or conclusions reached by the IRM personnel.

71. In fact, Dong's only source of information about the IRM personnel's audit work was through his occasional oral communications with the IRM associate director. He did not have any other communications with other IRM personnel concerning the Audit.

72. Dong relied almost exclusively on the IRM associate director, despite never having worked with him before, and despite the assigned work being in an area of identified higher risk. Dong did not become aware of how little involvement the IRM associate director himself had in the Audit.[55] For example, Dong was not aware that the IRM associate director did not review numerous work papers prepared by IRM personnel and did not charge any time to the Audit.

73. As detailed above, the IRM personnel on the Audit identified control deficiencies in Tarena's ITGCs, which increased the risk of material misstatement. As a result, Dong should have adjusted and increased his level of supervision.[56] He did not do so, in violation of PCAOB standards.

74. Moreover, given his lack of involvement with the Audit and the personnel he was responsible for supervising, Dong was unfamiliar with the IRM personnel's procedures and conclusions, as well as their documentation. For example:

a. He was not aware that the IRM personnel did not document the key elements of understanding Tarena's IT environment, a procedure that they had been designated to perform in the IRM planning memo.

b. He did not discuss or evaluate the identified ineffective ITGCs with the IRM personnel or other engagement team members.

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54 *Id.* at .04.

55 *See id.* at .04-.05.

56 *Id.* at .06.

c. He also was not aware that the IRM personnel did not properly document compensating controls or mitigating factors for the ineffective ITGCs.

d. He did not obtain an understanding of how the engagement team determined the severity of the control deficiencies, nor how the engagement team concluded that the ineffective ITGCs did not affect the Tuition Revenue ITACs.

e. He also did not review, or ensure others on the IRM team reviewed as planned, a number of control testing work papers for which an IRM staff person at the assistant manager level had signed off as both preparer and sole reviewer.

75. Accordingly, Dong failed to sufficiently supervise the engagement team's IT controls testing to evaluate if the procedures were performed and documented; if its objectives were achieved; and if the results supported the conclusions reached, in violation of AS 1201.

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 that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), CHOI Chung Chuen, MA Hong Chao, and DONG Chang Ling are hereby censured.

B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), CHOI Chung Chuen and MA Hong Chao 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).[57]

C. After one year from the date of this Order, CHOI Chung Chuen and MA Hong Chao may each file a petition for Board consent to associate with a registered public accounting firm pursuant to PCAOB Rule 5302(b).

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57 As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Choi and Ma. 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."

D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), CHOI Chung Chuen and MA Hong Chao are required to complete, before filing a petition for Board consent to associate with a registered firm, twenty 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).

E. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date of this Order, DONG Chang Ling'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: Dong 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 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, either to 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 in an audit under paragraph 4 of AS 1201; (6) participate on an audit as an engagement team member with specialized skill or knowledge in information technology, *see* AS 1201, App. C.1, Note; or (7) 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*.[58]

F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), DONG Chang Ling is required to complete, within one year from the date of this Order, twenty hours of CPE related to AS 1201, *Supervision of the Audit Engagement*; AS 1015, *Due Professional Care in the Performance of Work*; AS 1215, *Audit Documentation*; or AS 2301, *The Auditor's Responses to the Risks of Material*

[58] Nor shall Dong assume any equivalent role, such as a serving as a "lead auditor," "other auditor," or "referred-to auditor," as such terms will be defined by Appendix A of AS 2101, *Audit Planning*, when amendments to AS 2101 become effective for audits for fiscal years ending on or after December 15, 2024.

Misstatement (such hours shall be in addition to, and shall not be counted in, the CPE he is required to obtain in connection with any professional license).

G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), civil money penalties are imposed on Respondents in the following amounts: (i) CHOI Chung Chuen—$75,000; (ii) MA Hong Chao—$50,000; and (iii) DONG Chang Ling—$25,000.

1. All funds collected by the Board 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. Respondents shall pay these civil money penalties within thirty (30) 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 postal 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 payor 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. With respect to any civil money penalty amounts 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 penalties 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.

4. 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.

5. By consenting to this Order, CHOI Chung Chuen and MA Hong Chao acknowledge that a failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.

6. By consenting to this Order, DONG Chang Ling acknowledges that a failure to pay the civil money penalty described above may result in the PCAOB summarily suspending or barring him pursuant to PCAOB Rule 5304(b), following written notice to him at the address he last provided to the PCAOB's Division of Enforcement and Investigations in writing as of the time of the issuance of this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

March 20, 2024