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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of L&L CPAs, PA, Weixuan Tracy Luo,
CPA, Andy Chow, CPA, and Robert Kinzer, CPA,*

Respondents.

PCAOB Release No. 105-2024-033

June 10, 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 L&L CPAs, PA (“L&L” or the “Firm”), a registered public accounting firm, Weixuan Tracy Luo, CPA (“Luo”), Andy Chow, CPA (“Chow”), and Robert Kinzer, CPA (“Kinzer”) (collectively, “Respondents”);
- (2) imposing a civil money penalty in the amount of \$75,000 upon the Firm and Luo, jointly and severally;
- (3) requiring the Firm to undertake certain remedial actions concerning quality control directed toward satisfying requirements applicable to audits and reviews of issuers before filing, and to provide evidence of such measures with, any future registration application;¹
- (4) barring Chow from being associated with a registered public accounting firm and imposing a \$50,000 civil money penalty on him;²

¹ L&L filed a Form 1-WD on December 20, 2022, requesting leave to withdraw from registration with the Board.

² Chow may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

- (5) limiting Kinzer'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 ("Act"), for a period of one year from the date of this Order, and imposing a \$25,000 civil money penalty on him;
- (6) requiring that Chow complete 50 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
- (7) requiring that Kinzer complete 50 hours of CPE, in addition to any CPE required in connection with any professional license.

The Board is imposing these sanctions on the basis of its findings that: (a) the Firm failed to timely file two PCAOB Form APs, in violation of PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, and violated PCAOB quality control standards; (b) Luo directly and substantially contributed to the Firm's violations of PCAOB quality control standards; (c) Chow violated PCAOB rules and auditing standards in connection with the audit of the financial statements of Sugarmade, Inc., ("Sugarmade") for the fiscal year ("FY") ended June 30, 2021 (the "Sugarmade Audit"); and (d) Kinzer violated PCAOB rules and standards in connection with his engagement quality review ("EQR") for the Sugarmade Audit.

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

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, each Respondent has submitted an Offer of Settlement ("Offer") 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 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. **L&L CPAs, PA** is a public accounting firm headquartered in Plantation, Florida, and is licensed under the laws of the state of Florida (license no. AD68932). At all relevant times, L&L was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Weixuan Tracy Luo** was, at all relevant times, a certified public accountant licensed by the state of Florida (license no. AC44726), and 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). At all relevant times, Luo was the President of L&L.

3. **Andy Chow** was, at all relevant times, a certified public accountant licensed by the state of Florida (license no. AC51679) and an "associated person of a registered public accounting firm," as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Chow served as the engagement partner for the Sugarmade Audit.

4. **Robert Kinzer** was, at all relevant times, a certified public accountant licensed by the states of New York (license no. 043182) and Florida (license no. AC48886) and an "associated person of a registered public accounting firm," as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Kinzer served as the engagement quality reviewer for the Sugarmade Audit.

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 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.

B. Issuers

5. **Sugarmade, Inc.** is a corporation organized under the laws of Delaware and headquartered in Monrovia, California. Sugarmade’s public filings disclose that it supplies disposable products to the restaurant industry, imports and distributes non-medical personal protection equipment, provides cannabis product delivery services, and is involved in the establishment of cannabis and hemp projects. At all relevant times, Sugarmade was an “issuer,” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

6. **Xiamen Lutong International Travel Agency Co., Ltd.** (“Xiamen”) is a corporation organized under the laws of Nevada and headquartered in Zhangzhou, Fujian, China. Xiamen’s public filings disclose that it is a company that plans to engage in travel businesses in China, but has not commenced its business and has no business operations, revenues, or assets. At all relevant times, Xiamen was an “issuer,” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

7. **Grapefruit USA, Inc.** (“Grapefruit”) is a corporation organized under the laws of California and headquartered in Delaware. Grapefruit’s public filings disclose that it manufactures and distributes cannabis products. At all relevant times, Grapefruit was an “issuer,” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

8. **Marijuana Co of America, Inc.** (“Marijuana Co”) is a corporation organized under the laws of Utah and headquartered in Escondido, California. Marijuana Co’s public filings disclose that it markets and sells consumer products containing hemp and cannabinoids (or CBD) and provides financial accounting and property management services for companies in the cannabis industry. At all relevant times, Marijuana Co was an “issuer,” as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

9. This matter concerns L&L’s violations of PCAOB rules and standards by failing to (1) timely file Form APs for two issuer audits; and (2) establish quality control policies and procedures to provide reasonable assurance that Firm personnel would comply with PCAOB requirements concerning identification and disclosure of critical audit matters (“CAMs”). Luo violated PCAOB rules by knowingly or recklessly, and directly and substantially, contributing to the Firm’s violations of PCAOB quality control standards.

10. This matter also concerns Chow’s and Kinzer’s violations of PCAOB rules and standards during the Sugarmade Audit. Specifically, while serving as engagement partner on

the Sugarmade Audit, Chow failed to: (1) obtain sufficient appropriate audit evidence supporting the existence, valuation, and presentation and disclosure of a purported intangible asset representing over 50% of Sugarmade’s total assets in FY 2021; and (2) accurately describe in the Firm’s audit report how the engagement team addressed a CAM. Kinzer, the EQR partner for the Sugarmade Audit, failed to perform his engagement quality review with due professional care and in accordance with AS 1220, *Engagement Quality Review*.

D. L&L Failed to Timely File Form APs in Violation of PCAOB Rule 3211

11. PCAOB Rule 3211 provides that each registered public accounting firm must provide information about engagement partners and other accounting firms that participate in audits of issuers by filing a Form AP, *Auditor Reporting of Certain Audit Participants*, for each audit report issued by the firm for an issuer. Form APs must be filed by the 35th day after the date the audit report is first included in a document filed with the U.S. Securities and Exchange Commission (“SEC”),⁵ subject to a shorter filing deadline that applies when the audit report is first included in a registration statement filed under the Securities Act of 1933, as amended.⁶

12. L&L audited the financial statements of Marijuana Co as of and for the year ended December 31, 2018, and issued an audit report dated June 25, 2019, which was included in Marijuana Co’s financial statements filed with the SEC on the same day. After notification from the PCAOB, L&L belatedly filed the Form AP for that audit on March 6, 2024.

13. L&L audited the financial statements of Xiamen as of and for the year ended June 30, 2020, and issued an audit report dated October 13, 2020, which was included in Xiamen’s financial statements filed with the SEC on the same day. The Firm belatedly filed the Form AP for that audit on April 20, 2021.

14. L&L failed to file the required Form APs for each of the above audit reports by the 35th day after the date the audit reports were first included with the filings made with the SEC, in violation of PCAOB Rule 3211. Indeed, in the case of the 2018 Marijuana Co audit, L&L’s Form AP filing was more than four and a half years late.

⁵ See PCAOB Rule 3211(b)(1).

⁶ In that instance, a firm is required to file the Form AP by the tenth day after the date the audit report is first included in a document filed with the SEC. See PCAOB Rule 3211(b)(2).

E. L&L Violated PCAOB Rules and Quality Control Standards

15. PCAOB rules require registered public accounting firms to comply with the Board's quality control standards.⁷ PCAOB quality control standards, in turn, require each registered firm to effectively design, implement, and maintain a system of quality control for the firm's accounting and auditing practice.⁸

16. 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.⁹ A firm should establish 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.¹⁰

17. L&L failed to establish and implement policies and procedures to provide it with reasonable assurance that, in audits governed by PCAOB standards, engagement personnel would comply with the requirements of AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, related to determining and reporting CAMs.

18. AS 3101.11 states that an auditor must determine whether there are any CAMs in the audit of a client's current period financial statements. A CAM is "any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment."¹¹

19. For each CAM communicated in the auditor's report, the auditor must: (a) identify the CAM; (b) describe the principal considerations that led the auditor to determine that the matter is a CAM; (c) describe how the CAM was addressed in the audit; and (d) refer

⁷ See PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁸ QC § 20.01-.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

⁹ *Id.* at .03.

¹⁰ *Id.* at .17.

¹¹ AS 3101.11.

to the relevant financial statement accounts or disclosures that relate to the CAM.¹² If the auditor determines that there are no CAMs in an audit, the auditor must state in the audit report that no CAMs were identified.¹³

20. L&L issued an audit report dated April 19, 2021, on Grapefruit’s financial statements for the year ended December 31, 2020 (the “Grapefruit 2020 Audit”). L&L’s audit report expressed an unqualified opinion with explanatory language regarding substantial doubt about Grapefruit’s ability to continue as a going concern but did not include any language related to CAMs, in violation of AS 3101. On July 26, 2021, the engagement team for the Grapefruit 2020 Audit identified that the previously issued audit report did not include the required language related to CAMs, and subsequently performed procedures to determine whether inventory, fixed assets, accounts payable and accrued liabilities, convertible notes, and equity were CAMs for the Grapefruit 2020 Audit. L&L then issued a revised audit report, also dated April 19, 2021, that included language identifying and describing convertible notes as a CAM.

21. L&L also issued an audit report dated October 13, 2021, for the Sugarmade Audit. L&L’s audit report expressed an unqualified opinion with explanatory language regarding substantial doubt about Sugarmade’s ability to continue as a going concern. L&L’s audit report identified the potential impairment of an intangible asset as a CAM, but it did not accurately describe how that CAM was addressed in the Sugarmade Audit. Specifically, the audit report stated that procedures performed to address CAMs included a “sensitivity analysis of significant assumptions” and “evaluating the impact on the fair values that would result from changes in the assumptions.” However, the engagement team did not, in fact, perform the procedures described in the CAM during the Sugarmade Audit.

22. As illustrated by the deficiencies in the Grapefruit 2020 Audit and the Sugarmade Audit, during 2021, L&L failed to establish and implement policies and procedures to provide it with reasonable assurance that, in audits governed by PCAOB standards, engagement personnel would (1) determine whether there were any CAMs in the audit; (2) communicate all CAMs in the audit report or state in the audit report that it determined that there were no CAMs; and (3) accurately describe how the CAMs were addressed in the audit. Accordingly, L&L violated QC § 20.

¹² *Id.* at .14.

¹³ *Id.* at .13.

F. Luo Directly and Substantially Contributed to the Firm's Quality Control Violations

23. PCAOB rules require 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

24. As described above, the Firm failed to design, implement, and maintain policies and procedures to provide it with reasonable assurance that, in audits governed by PCAOB standards, engagement personnel would comply with the requirements of AS 3101 related to determining and reporting CAMs. At all relevant times, Luo was President of the Firm, and was responsible for developing and maintaining quality control policies and procedures applicable to the Firm's auditing practice.

25. Luo failed to design, implement, and maintain adequate policies and procedures related to compliance with the CAM requirements in AS 3101 and knew, or was reckless in not knowing, that her acts and omissions would directly and substantially contribute to the Firm's violations of QC § 20, as described above.

26. As a result, Luo violated PCAOB Rule 3502.

G. Chow Violated PCAOB Rules and Standards on the Sugarmade Audit

a. Chow Failed to Obtain Sufficient Appropriate Audit Evidence Supporting the Existence of a Purported "Cannabis Cultivation License"

27. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards.¹⁵ Under these standards, an auditor may express an

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

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

unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.¹⁶

28. The auditor must plan and perform audit procedures to obtain sufficient appropriate evidence to support the audit opinion.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 report.¹⁸ Auditors are required to exercise due professional care in the planning and performance of the audit and in the preparation of the report.¹⁹ Due professional care requires the auditor to exercise professional skepticism, which is "an attitude that includes a questioning mind and a critical assessment of audit evidence."²⁰

29. In its financial statements for FY 2021, Sugarmade reported "intangible asset, net" totaling \$10,650,394, of which \$10,637,000 related to a "cannabis cultivation license." This license represented approximately 55% of Sugarmade's total reported assets for FY 2021.

30. The cannabis cultivation license component of Sugarmade's intangible assets was purportedly associated with a 640-acre property that Sugarmade acquired as part of its May 25, 2021, acquisition of a non-operating entity (the "Acquisition"). In the notes to its FY 2021 financial statements, Sugarmade disclosed that it "valued the cannabis cultivation license . . . at \$10,637,000 with remaining economic life of 9 years as of June 30, 2021."

31. Chow and the engagement team identified impairment of intangible assets associated with the Acquisition as significant risks in the Sugarmade Audit. As noted above, these significant risks were communicated as CAMs in L&L's audit report.

32. However, Chow failed to plan and perform sufficient audit procedures to test the existence of the purported cannabis cultivation license. Indeed, the only procedures it appears the engagement team performed were to obtain the agreement and plan of merger for the Acquisition, which did not purport to convey a cannabis cultivation license, and make

¹⁶ AS 3101.02.

¹⁷ AS 1105.04, *Audit Evidence*.

¹⁸ AS 2810.33, *Evaluating Audit Results*.

¹⁹ AS 1015.01, *Due Professional Care in the Performance of Work*.

²⁰ *See id.* at .07.

management inquiries. Those procedures were insufficient to evidence the existence of the license under PCAOB standards.²¹

33. In fact, the cannabis cultivation license, reported by Sugarmade, did not exist as of fiscal year-end 2021. While the land Sugarmade acquired in connection with the Acquisition had been zoned for potential cannabis cultivation, neither the acquired company nor Sugarmade had applied for a cannabis cultivation license for the property as of the date of the Acquisition, or as of the date of L&L's October 13, 2021 audit report and the filing of Sugarmade's 2021 Form 10-K.²²

34. Accordingly, Chow violated AS 1015 and AS 1105.

b. Chow Failed to Obtain Sufficient Appropriate Audit Evidence Supporting the Valuation of the Purported Cannabis Cultivation License

35. Chow not only failed to obtain sufficient evidence to support the existence of the purported cannabis cultivation license, but he also failed to obtain sufficient evidence at year-end to support the valuation management ascribed to the license.

36. An auditor must plan and perform audit procedures to obtain sufficient appropriate evidence to support the audit opinion.²³ To be appropriate, evidence must be both relevant and reliable.²⁴ PCAOB standards establish requirements for evaluating accounting estimates, including fair value measurements.²⁵ Among other procedures, an

²¹ See AS 1105.17, Note ("Inquiry of company personnel, by itself, does not provide sufficient audit evidence to reduce audit risk to an appropriately low level for a relevant assertion or to support a conclusion about the effectiveness of a control.").

²² The following year, in the notes to its FY 2022 financial statements, Sugarmade disclosed that it obtained a conditional use permit number on October 28, 2021—fifteen days *after* the date of L&L's 2021 audit report and after the filing of Sugarmade's 2021 Form 10-K. Sugarmade described the conditional use permit number as "an important step towards . . . commercial cannabis cultivation at its property," as it allowed the company "to proceed with the state cannabis cultivation license application, and potentially obtain certain applicable permits." Sugarmade, Inc.'s Form 10-K for fiscal year ended June 30, 2022, at 44, available at <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000919175/000149315223001479/form10-k.htm>.

²³ See AS 1105.04; AS 2810.33.

²⁴ See AS 1105.06-.08.

²⁵ AS 2501.01, *Auditing Accounting Estimates, Including Fair Value Measurements*.

auditor should evaluate the reasonableness of the significant assumptions used by a company to develop an estimate, both individually and in combination.²⁶ This includes evaluating whether the company has a basis for the significant assumptions used and, when applicable, for its selection of assumptions from a range of potential assumptions.²⁷ When a significant assumption is based on the company's intent and ability to carry out a particular course of action, the auditor should take into account certain factors in evaluating the reasonableness of the assumption, including the company's ability to carry out a particular course of action, which includes, among other things, legal, regulatory, or contractual restrictions that could affect the company's ability to carry out the action.²⁸

37. If an auditor uses the work of a specialist, employed or engaged by an issuer client, as audit evidence to support a conclusion regarding a relevant assertion of a significant account or disclosure, the auditor has certain responsibilities.²⁹ Among other things, when evaluating the work of the company's specialist, the auditor should evaluate whether the significant assumptions used by the specialist are reasonable.³⁰

38. Sugarmade engaged a specialist to determine the estimated fair value and estimated useful life of the purported cannabis cultivation license. Sugarmade's specialist used prospective financial information and assumptions developed by Sugarmade management to determine its valuation, which included estimates of revenue, revenue growth, operating expenses, gross margin, taxes, and a discount rate.

39. Chow failed to perform sufficient procedures to evaluate the reasonableness of the significant assumptions used by Sugarmade's valuation specialist. To test the reasonableness of the revenue and revenue growth assumptions, Chow used a third-party study to determine the wholesale market price for a pound of cannabis flower, and then multiplied that price by the estimated production potential per square foot for the 32 acres of cultivable land on the 640-acre property Sugarmade obtained in the Acquisition. However, Chow did not evaluate the relevance or reliability of that third-party study.³¹ Nor did Chow

²⁶ *Id.* at .16.

²⁷ *Id.* at .16(a).

²⁸ *Id.* at .17 and .17(d)(2).

²⁹ See AS 1105, Appendix A.

³⁰ *Id.* at .A8b.

³¹ AS 1105.07 and .08.

appropriately consider factors potentially affecting Sugarmade’s ability to carry out the actions necessary to meet its revenue and revenue growth forecasts.³² For example, Chow did not consider (1) the probability that Sugarmade might not obtain the necessary licenses and approvals to cultivate cannabis; (2) when such licenses and approvals, if granted, might occur; or (3) that Sugarmade might not cultivate the same types of cannabis flowers referenced in the third-party study.

40. Chow did not perform any procedures to evaluate the reasonableness of any other assumptions developed by Sugarmade and used by Sugarmade’s valuation specialist, including, for example, estimated operating expenses and the discount rate.³³

41. Accordingly, Chow violated AS 1015, AS 1105, and AS 2501.

c. Chow Failed to Adequately Evaluate the Presentation and Disclosure of the Purported Cannabis Cultivation License

42. PCAOB standards require an auditor to evaluate whether financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.³⁴ As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether they contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework.³⁵ Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.³⁶

43. During the Sugarmade Audit, Chow reviewed Sugarmade’s financial statements, including the accompanying notes, yet he failed to identify the errors in Sugarmade’s presentation of the purported cannabis cultivation license. Specifically, as noted above, Sugarmade repeatedly referred to and valued the cannabis cultivation “license” as if it

³² AS 2501.17.

³³ *Id.* at .15 and .16

³⁴ AS 2810.30.

³⁵ *Id.* at .31.

³⁶ *Id.*

had been obtained in the Acquisition when, in fact, no such license existed as of Sugarmade's fiscal year-end 2021 or at the time Chow authorized the issuance of L&L's audit report.

44. Accordingly, Chow failed to adequately evaluate the presentation and disclosure of the purported cannabis cultivation license, in violation of AS 2810.

d. Chow Failed to Describe Accurately How the Engagement Team Addressed a CAM

45. As stated above, PCAOB standards require that the auditor communicate in the auditor's report the CAMs relating to the audit of the current period's financial statements, or state that the auditor determined that there are no CAMs.³⁷ For each CAM communicated in the auditor's report, the auditor must, among other things, describe how the CAM was addressed in the audit.³⁸

46. For the Sugarmade Audit, Chow did not accurately describe how the engagement team addressed a CAM. The Firm's audit report identified "Intangible Assets Impairment" as a CAM and stated that Sugarmade's intangible assets "mainly related to the cannabis cultivation license." The audit report further stated that the procedures Chow and the engagement team used to address this CAM included performing a "sensitivity analysis of significant assumptions" and "evaluating the impact on the fair values that would result from changes in the assumptions." However, Chow and his team did not, in fact, perform those procedures during the Sugarmade Audit.

47. Accordingly, Chow violated AS 3101.

H. Kinzer Violated PCAOB Rules and Standards in Connection with His EQR on the Sugarmade Audit

48. PCAOB standards require that an EQR be performed on all audit engagements conducted pursuant to PCAOB standards.³⁹ In conducting the EQR, the EQR partner should evaluate the significant judgments made by the engagement team and the related

³⁷ AS 3101.13.

³⁸ *Id.* at .14(c).

³⁹ AS 1220.01.

conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report.⁴⁰

49. PCAOB standards also require the EQR partner to evaluate the assessment of, and audit responses to, among other things, significant risks identified by the engagement team, including fraud risks.⁴¹ In addition, the EQR partner is required to evaluate whether the engagement documentation that he or she reviewed in connection with the EQR 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.⁴² PCAOB standards also provide that an engagement quality reviewer should evaluate the engagement team's determination, communication, and documentation of CAMs.⁴³

50. The EQR partner may provide concurring approval of issuance of an audit report only if, after performing the EQR with due professional care, he or she is not aware of a significant engagement deficiency.⁴⁴ A significant engagement deficiency in an audit exists when the engagement team failed to obtain sufficient appropriate audit evidence in accordance with PCAOB standards.⁴⁵

51. As explained above, L&L issued an audit report dated October 13, 2021, and expressed an unqualified opinion for the Sugarmade Audit, with explanatory language regarding substantial doubt about Sugarmade's ability to continue as a going concern. Kinzer was the EQR partner for the Sugarmade Audit and provided his concurring approval of issuance.

52. In the Sugarmade Audit, Chow and his engagement team identified intangible assets, which included the purported cannabis cultivation license, as a significant risk. Thus, Kinzer was required to evaluate, with due professional care, the engagement team's planned and performed procedures related to that account. Kinzer was also required to evaluate, with due professional care, the engagement team's determination, communication, and

⁴⁰ *Id.* at .09.

⁴¹ *Id.* at .10(b).

⁴² *Id.* at .11.

⁴³ *Id.* at .10(j).

⁴⁴ *See id.* at .12; *see also* AS 1015.07.

⁴⁵ *See* AS 1220.12, Note.

documentation of the CAM described in the Firm's audit report related to the purported cannabis cultivation license.

53. As stated above, Chow and the engagement team failed to perform appropriate procedures and failed to obtain sufficient appropriate audit evidence supporting the existence, valuation, and presentation and disclosure of the purported cannabis cultivation license. While Kinzer, as EQR partner, reviewed the engagement team's procedures in these areas, he failed to evaluate them with due professional care, and as a result, failed to identify multiple deficiencies in the engagement team's work.

54. In addition, as described above, the Firm's audit report on the Sugarmade audit failed to accurately describe how Chow and his engagement team addressed the CAM related to the purported cannabis cultivation license in the Sugarmade Audit. While Kinzer reviewed the Firm's audit report, he failed to evaluate with due professional care whether the communication of the CAM in the report was accurate.

55. Kinzer provided his concurring approval of issuance of the Firm's Sugarmade Audit report, despite the deficiencies described above. As a result, he violated AS 1015 and AS 1220.

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), L&L CPAs, PA, Weixuan Tracy Luo, Andy Chow, and Robert Kinzer are hereby censured.
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Chow is 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).⁴⁶

⁴⁶ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Chow. 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

- C. Pursuant to PCAOB Rule 5302, Chow may file a petition for Board consent to associate with a registered public accounting firm after the expiration of one year from the date of this Order.
- D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Chow is required to complete, before petitioning to reassociate with the Board, fifty hours of 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 he is required to obtain in connection with any professional license).
- E. For one year after the date of this Order, Kinzer shall not: (1) 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*; (2) serve, or supervise the work of another person serving, in any role that is equivalent to engagement quality reviewer, but differently denominated (such as “concurring partner”); (3) exercise authority, or supervise the work of another person exercising authority, to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; or (4) assist the engagement quality reviewer in fulfilling his or her responsibilities under the Note to paragraph 6 of AS 1220.
- F. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Kinzer is required to complete, within one year of the date of this Order, fifty hours of 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 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) \$75,000 is imposed upon the Firm and Luo, jointly and severally; (ii) \$50,000 is imposed upon Chow; and (iii) \$25,000 is imposed upon Kinzer.

care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission.”

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. The Firm and Luo shall pay the foregoing civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer pursuant to instructions provided by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the Firm and Luo as respondents 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. Chow shall pay the foregoing civil money penalty as follows: Chow shall pay \$10,000 within ten days of the issuance of this Order, an additional \$10,000 within 90 days of the issuance of this Order, an additional \$10,000 within 180 days of the issuance of this Order, an additional \$10,000 within 270 days of this Order, an additional \$10,000 within one year of the issuance of this Order, making each payment by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies Chow 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.

4. Kinzer shall pay the foregoing civil money penalty as follows: Kinzer shall pay \$5,000 within ten days of the issuance of this Order, an additional \$5,000 within 90 days of the issuance of this Order, an additional \$5,000 within 180 days of the issuance of this Order, an additional \$5,000 within 270 days of this Order, and an additional \$5,000 within one year of the issuance of this Order, making each payment by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies Kinzer 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.
5. 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.
6. 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 a Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against the Respondent based on substantially the same facts as set out in the findings in this Order.
7. 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.

8. Chow understands that his failure to pay the civil money penalty imposed upon him may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b).
 9. Kinzer understands that his failure to pay the civil money penalty imposed upon him may, pursuant to PCAOB Rule 5304(b), result in a suspension or bar.
- H. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), the Firm is required:
1. Before filing with the Board any future registration application, to establish, revise, or supplement, as necessary, policies and procedures, including monitoring procedures, to provide the Firm with reasonable assurance that Firm personnel will comply with PCAOB Rule 3211 and AS 3101; and
 2. To provide with any future registration application a written certification, signed by its CEO, to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.H.1 above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Firm shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Registration and Inspections may reasonably request.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

June 10, 2024