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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of Yusufali & Associates, LLC, and
Yusufali Musaji, CPA,*

Respondents.

PCAOB Release No. 105-2024-042

October 22, 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 Yusufali & Associates, LLC (“Firm”) and Yusufali Musaji (“Musaji”) (collectively, “Respondents”);
- (2) revoking the Firm’s registration;¹
- (3) barring Musaji from being an associated person of a registered public accounting firm;²
- (4) imposing a civil money penalty in the amount of \$50,000, jointly and severally, on the Firm and Musaji;
- (5) 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; and
- (6) requiring Musaji to complete 50 hours of continuing professional education (“CPE”), in addition to any CPE required in connection with any professional

¹ The Firm may reapply for registration after three years from the date of this Order.

² Musaji may file a petition for Board consent to associate with a registered public accounting firm after three years from the date of this Order.

license, before filing any petition for Board consent to associate with a registered public accounting firm.

The Board is imposing these sanctions on the basis of its findings that: (a) Respondents violated PCAOB rules and standards in connection with the audits of the financial statements of two issuer clients; (b) Respondents failed to cooperate with a Board inspection; (c) the Firm violated PCAOB standards by failing to obtain engagement quality reviews in connection with those audits; (d) the Firm failed to file forms required by PCAOB rules; (e) the Firm violated PCAOB quality control standards; and (f) Musaji directly and substantially contributed to the Firm's violations of PCAOB rules and engagement quality review and quality control standards.³

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 Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1).

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement (the "Offers") that the Board has determined to accept. Solely for the purpose of these proceedings and any other proceeding brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings 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.⁴

³ 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 audits discussed herein.

⁴ 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.

III.

On the basis of Respondents' Offers, the Board finds that:⁵

A. Respondents

1. **Yusufali & Associates, LLC** is a limited liability company located in Short Hills, New Jersey. The Firm is, and at all relevant times was, registered with the PCAOB pursuant to Section 102 of the Act and PCAOB rules. The Firm is licensed to practice public accountancy with the state of New Jersey (license no. 20CB00603500).

2. **Yusufali Musaji, CPA** is the owner of the Firm and a certified public accountant licensed by the state of New Jersey (license no. 20CC03225800) and several other states. At all relevant times, Musaji was the sole partner of the Firm and served as the engagement partner on all issuer audits it conducted, including those discussed below. Musaji is, and at all relevant times was, an "associated person of a registered public accounting firm," as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Issuers

3. **Free Flow, Inc.** ("Free Flow") was, at all relevant times, a Delaware corporation headquartered in King George, Virginia. Free Flow's public filings disclose that it was engaged in the business of selling used auto parts. Free Flow was, at all relevant times, an "issuer," as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii), including at the time the Firm audited Free Flow's financial statements for the years ended as of December 31, 2020, and December 31, 2021 (the "2020 Free Flow Audit" and "2021 Free Flow Audit," respectively, and collectively, the "Free Flow Audits").

4. **PotNetwork Holdings, Inc.** ("PotNetwork") was, at all relevant times, a Colorado corporation headquartered in Fort Lauderdale, Florida. PotNetwork's public filings disclose that it was engaged in the development and sales of hemp-derived CBD oil containing products. PotNetwork was, at all relevant times, an "issuer," as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii), including at the time the Firm audited PotNetwork's

⁵ 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 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.

financial statements for the years ended and as of December 31, 2019, and December 31, 2020 (the “2019 PotNetwork Audit” and “2020 PotNetwork Audit,” respectively, collectively, the “PotNetwork Audits,” and together with the “Free Flow Audits,” the “Issuer Audits”).⁶

C. Summary

5. This matter concerns Respondents’ violations of PCAOB rules and standards in connection with the Issuer Audits. Specifically, Respondents failed to: (1) obtain sufficient appropriate audit evidence in connection with testing revenue and inventory in the Free Flow Audits; (2) obtain sufficient appropriate audit evidence in connection with testing revenue, convertible notes payable, and advances in the PotNetwork Audits; (3) perform sufficient procedures to address fraud risks in each of the Issuer Audits; (4) determine critical audit matters (“CAMs”) during the Free Flow Audits and 2020 PotNetwork Audit; (5) make certain required audit committee communications during the Free Flow Audits and 2019 PotNetwork Audit; (6) comply with audit documentation requirements in each of the Issuer Audits; and (7) cooperate with a Board inspection of the 2021 Free Flow Audit and 2020 PotNetwork Audit by submitting improperly altered audit documentation to PCAOB inspectors.

6. In addition, the Firm violated PCAOB standards by failing to obtain engagement quality reviews for any of the Issuer Audits, and violated PCAOB rules by failing to file Form APs in connection with each of the Issuer Audits.

7. The Firm also violated PCAOB quality control standards because it failed to establish an appropriate system of quality control to provide it with reasonable assurance that (1) work performed by engagement personnel met applicable professional standards and regulatory requirements, and (2) the Firm only undertook engagements that it could reasonably expect to perform with professional competence.

8. Finally, Musaji violated PCAOB rules by knowingly or recklessly, and directly and substantially, contributing to the Firm’s violations of PCAOB rules and engagement quality review standards and quality control standards.

D. Respondents Violated PCAOB Rules and Standards

9. 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

⁶ On June 20, 2022, PotNetwork’s name was changed to Diamond Wellness Holdings, Inc. The Securities and Exchange Commission (“Commission”) revoked the company’s registration on June 9, 2023.

Board's auditing and related professional practice standards.⁷ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has conducted an audit in accordance with PCAOB standards 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.⁸ Among other things, PCAOB standards require an auditor to exercise due professional care in the planning and performance of the audit and the preparation of the report, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.⁹

10. PCAOB standards require the auditor to address the risks of material misstatement through appropriate overall audit responses and procedures, and specify that the 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.¹⁰ For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks.¹¹

11. PCAOB standards require that the auditor identify and assess the risks of material misstatement at the financial statement level and the assertion level.¹² PCAOB standards also require the auditor to presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.¹³ If the auditor has not identified, in a particular circumstance,

⁷ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

⁸ AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

⁹ See AS 1015.01, .07, *Due Professional Care in the Performance of Work*; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*; AS 1101.03, *Audit Risk*; AS 1105.04, *Audit Evidence*.

¹⁰ AS 2301.02, .08.

¹¹ See *id.* at .11.

¹² See AS 2110.59, *Identifying and Assessing Risks of Material Misstatement*.

¹³ See *id.* at .68.

improper revenue recognition as a fraud risk, the auditor should document the reasons supporting that conclusion.¹⁴

12. PCAOB standards further provide that when using 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: (1) test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and (2) evaluate whether the information is sufficiently precise and detailed for purposes of the audit.¹⁵

13. As described below, Respondents failed to comply with these and other PCAOB rules and standards.

i. Respondents Failed to Obtain Sufficient Appropriate Audit Evidence in Testing Revenue and Inventory in the Free Flow Audits

14. Revenue and inventory both represented significant items on Free Flow's financial statements for the fiscal years audited. As of and for the years ended December 31, 2020, and December 31, 2021, Free Flow reported revenues of approximately \$412,000 and \$746,000, and inventory of approximately \$1.8 million (49% of total assets) and \$2.5 million (60% of total assets), respectively.

a. Revenue

15. Although Respondents identified a significant risk related to revenue for all relevant assertions in the 2020 Free Flow Audit and 2021 Free Flow Audit, they failed to perform any audit procedures to address the significant risk, other than tracing revenue balances to the general ledger and obtaining certain company-generated invoices.¹⁶ Moreover, the audit documentation concerning the invoices obtained merely stated that the Respondents "Checked Invoices" without identifying any of the invoices obtained, how the invoices were selected, and what procedures were performed with respect to each invoice.

¹⁴ AS 2401.83, *Consideration of Fraud in a Financial Statement Audit*.

¹⁵ See AS 1105.10.

¹⁶ See AS 2301.08, .11 (auditor should perform audit procedures that address the assessed risks of material misstatement for each relevant assertion of each significant account and disclosures).

b. Inventory

16. Respondents failed to identify and assess the risk of material misstatement related to the relevant assertions of inventory in the Free Flow Audits.¹⁷ In addition, in the 2020 Free Flow Audit, Respondents did not perform any procedures to test the existence of inventory. In the 2021 Free Flow Audit, Respondents engaged a contractor who performed a count of physical inventory with respect to a sample of inventory items on December 29 and 30, 2021. However, Respondents failed to sufficiently test the existence assertion because they did not establish a basis to support the number of items selected in the sample and did not test the completeness of the inventory report from which the sampled items were selected.¹⁸

17. Moreover, in both 2020 and 2021, other than preparing a lead schedule and tracing the total amount to the inventory balance in the financial statements, Respondents failed to perform any procedures to test the valuation of inventory.

18. As a result, Respondents failed to plan and perform audit procedures to obtain sufficient appropriate audit evidence in testing revenue and inventory in the Free Flow Audits, in violation of AS 1105, AS 2110, AS 2301, and AS 2315. Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

ii. Respondents Failed to Obtain Sufficient Appropriate Audit Evidence in Testing Revenue, Convertible Notes Payable, and Advances in the PotNetwork Audits

19. Revenue, convertible notes payable, and advances all represented significant items on PotNetwork's financial statements for the fiscal years audited. As of and for the years ended December 31, 2019, and December, 31, 2020, PotNetwork reported total revenue of approximately \$15.1 million and \$9.7 million, convertible notes payable of approximately \$4.2 million (71% of total liabilities) and \$4.2 million (84% of total liabilities), and advances of approximately \$5.1 million (84% of total assets) and \$0, respectively.¹⁹

¹⁷ See AS 2110.59, *Identifying and Assessing Risks of Material Misstatement* (auditor should identify and assess the risks of material misstatement at the financial statement level and the assertion level).

¹⁸ See AS 2315.23, .23A, *Audit Sampling* (setting forth the factors an auditor should take into account to determine the number of items to be selected in a sample for a particular substantive test of details); see also AS 1105.10.

¹⁹ The issuer disclosed in its Forms 10-K that it fulfilled all customer orders under a drop shipment fulfillment model whereby a third-party supplier (or the drop shipper) ships the merchandise directly to

a. Revenue

20. In the 2019 PotNetwork Audit, Respondents failed to design and perform any audit procedures to address the assessed risk of material misstatement for each relevant assertion of revenue despite identifying the account as a significant risk.²⁰

21. In the 2020 PotNetwork Audit, Respondents failed to identify and assess the risk of material misstatement at the financial statement level and assertion level for revenue.²¹ Specifically, Respondents failed as part of the 2020 PotNetwork Audit to identify a fraud risk involving improper revenue recognition – even though PCAOB standards require the auditor to presume such a risk – or to document how Respondents overcame such presumptions.²² Respondents also failed to design and perform sufficient procedures to test revenue, as they did not perform any procedures other than tracing revenue amounts to the general ledger and obtaining some company-generated invoices.²³ Moreover, the audit documentation concerning the invoices obtained merely stated that the Respondents “Checked Invoices” without identifying any of the invoices obtained, how the invoices were selected, and what procedures were performed with respect to each invoice.

b. Convertible Notes Payable

22. In the 2019 PotNetwork Audit, Respondents failed to design and perform any audit procedures to address the assessed risk of material misstatement for each relevant assertion of convertible notes payable despite identifying the account as a significant risk.

23. In the 2020 PotNetwork Audit, Respondents failed to identify and assess the risk of material misstatement at the financial statement level and assertion level for convertible notes payable. Respondents performed certain limited procedures: (1) prepared a lead schedule and agreed the total to the convertible notes payable amount per trial balance; (2) obtained copies of various convertible notes payable agreements and securities purchase

each customer. As of December 31, 2019, the issuer reported advances paid to the drop shipper of \$5.1 million. For the year-ended December 31, 2020, the issuer reported a write-off of advances paid to the drop shipper of approximately \$3 million and an ending net balance for advances of \$0 as of December 31, 2020.

²⁰ See AS 2301.08, .11

²¹ See AS 2110.59.

²² See AS 2110.68; AS 2401.83.

²³ See AS 2301.08, .11.

agreements; (3) obtained transaction logs recording accrued interest; and (4) recalculated interest accruals.

24. Other than performing those limited procedures, however, Respondents failed to perform any procedures in the 2020 PotNetwork Audit to test the valuation of the convertible notes payable and PotNetwork's reported loss of \$695,000 from debt settlements by share issuances.²⁴

c. Advances

25. In the 2019 PotNetwork Audit, Respondents failed to design and perform any audit procedures to address the assessed risk of material misstatement for each relevant assertion of advances paid to the drop shipper despite identifying the account as a significant risk.²⁵

26. In the 2020 PotNetwork Audit, Respondents failed to identify and assess the risk of material misstatement at the financial statement level and assertion level for an impairment loss recorded for drop shipper advances. As of December 31, 2020, the gross balance of advances paid to the drop shipper was approximately \$3 million. However, PotNetwork disclosed that for the year ended December 31, 2020, it wrote off, as a non-recurring impairment loss, the full amount of this asset held by the drop shipper due to a drop in sales in connection with the Covid-19 pandemic. Respondents failed to perform any procedures to evaluate the appropriateness of the impairment of the full amount of advances to the drop shipper, other than agreeing the total on a lead schedule to the trial balance and obtaining various transaction logs and journal entries showing transactions related to the drop shipper.²⁶

27. As a result, in the PotNetwork Audits, Respondents failed to perform audit procedures to obtain sufficient appropriate audit evidence in testing revenue, convertible notes payable, and advances, in violation of AS 1105, AS 2110, AS 2301, and AS 2401. Respondents also violated AS 1015 by failing to exercise due professional care, including professional skepticism.

²⁴ *Id.*

²⁵ *See supra* note 19 (describing drop shipment model).

²⁶ *Id.*

iii. Respondents Failed to Perform Sufficient Procedures to Address Fraud Risks in Each of the Issuer Audits

28. PCAOB standards require the auditor to inquire of the audit committee, management, and others within the issuer about the risks of material misstatement, including fraud.²⁷ PCAOB standards also require the auditor to perform procedures to specifically address the risk of management override of controls, including obtaining an understanding of the entity's financial reporting process and the related controls over journal entries and other adjustments, and identifying and selecting journal entries and other adjustments for testing.²⁸

29. In the Issuer Audits, Respondents failed to perform sufficient procedures to address the risk of management override of controls because they did not obtain an understanding of the issuers' financial reporting processes and the controls over journal entries and other adjustments, and did not identify and select journal entries and other adjustments for testing. Respondents also did not inquire of the issuers' audit committees or equivalents, and management, regarding the risks of material misstatement, including fraud.

30. Moreover, in the 2019 PotNetwork Audit, Respondents were aware that PotNetwork had purportedly paid approximately \$3 million in marketing expenses to a marketing agency, but the issuer could not provide supporting documents for these marketing expenses. In the 2020 PotNetwork Audit, Respondents obtained American Express corporate credit card transaction logs indicating that PotNetwork intermingled personal expenses on the corporate card. Nevertheless, Respondents failed to identify fraud risks related to the potential misappropriation of assets and address that risk.

31. Therefore, Respondents violated AS 2110 and AS 2401, and violated AS 1015 by failing to exercise due professional care, including professional skepticism.

iv. Respondents Failed to Determine CAMs during the Free Flow Audits and 2020 PotNetwork Audit

32. AS 3101 "establishes requirements regarding the content of the auditor's written report when the auditor expresses an unqualified opinion on the financial statements."²⁹ Among other things, "[t]he auditor must determine whether there are any critical audit matters

²⁷ See AS 2110.54 -.58.

²⁸ See AS 2401.58.

²⁹ AS 3101.01.

in the audit of the current period's financial statements."³⁰ 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."³¹

33. During the Free Flow Audits and the 2020 PotNetwork Audit, Respondents failed to determine whether there were CAMs in the audits. Specifically, Respondents failed to evaluate whether significant risks and other matters that were required to be communicated to the issuers' audit committees were CAMs, *i.e.*, whether the matters were material to the financial statements and involved especially challenging, subjective, or complex auditor judgment.³²

34. As a result, Respondents violated AS 3101.

v. Respondents Failed to Make Required Audit Committee Communications

35. PCAOB standards require the auditor to communicate certain matters related to the conduct of an audit to the issuer's audit committee.³³ These matters include, among other things, the overall audit strategy; the significant risks identified during the auditor's risk assessment procedures; significant and critical accounting policies and practices; critical accounting estimates; and the results of the auditor's evaluation of the quality of the company's financial reporting.³⁴

36. In connection with the Free Flow Audits and the 2019 PotNetwork Audit, Respondents failed to make required communications to the audit committees related to: (1) the significant risks identified during the engagement team's risk assessment procedures; (2) significant accounting policies and practices; (3) critical accounting policies and practices; (4) critical accounting estimates; and (5) the results of Respondents' evaluation of the quality of the issuers' financial reporting.

³⁰ *Id.* at .11.

³¹ *Id.*

³² *Id.*

³³ AS 1301.01, *Communications with Audit Committees*.

³⁴ *Id.* at .09, .12-.13.

37. PCAOB rules also require that a registered public accounting firm and its associated persons be independent of the firm’s audit client throughout the audit and professional engagement period.³⁵ PCAOB rules require that a registered firm, at least annually for each audit client, describe in writing to the audit committee of an audit client relationships between the firm and the client that may reasonably be thought to bear on independence.³⁶

38. With respect to the Free Flow Audits and the PotNetwork Audits, the Firm failed to make any communication in writing to the Free Flow or PotNetwork audit committees about all relationships between the Firm and the issuers that may reasonably be thought to bear on independence.

39. Accordingly, Respondents violated AS 1301 and the Firm violated PCAOB Rule 3526.

vi. Respondents Violated Audit Documentation Standards and Failed to Cooperate with the Board’s Inspection

40. PCAOB Rule 4006 states, in part: “Every registered public accounting firm, and every associated person of a registered public accounting firm, shall cooperate with the Board in the performance of any Board inspection.”³⁷ “Implicit in this cooperation requirement is that auditors provide accurate and truthful information” to the Board’s inspectors.³⁸

41. PCAOB standards require that the auditor “prepare audit documentation in connection with each engagement conducted pursuant to the standards of the PCAOB.”³⁹ PCAOB standards further provide that “[a] complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*).”⁴⁰ In addition, although “[c]ircumstances may require

³⁵ See PCAOB Rule 3520, *Auditor Independence*.

³⁶ PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*.

³⁷ PCAOB Rule 4006, *Duty to Cooperate with Inspectors*.

³⁸ *Kabani & Co., Inc.*, Rel. No. 34-80201, 2017 WL 947229, at *12 (SEC Mar. 10, 2017), *petition for review denied*, *Kabani & Co., Inc. v. SEC*, 733 F. App’x 918 (9th Cir. 2018); see also PCAOB Staff Audit Practice Alert No. 14, at *3 (Apr. 21, 2016) (“This duty to cooperate includes an obligation not to provide improperly altered documents or misleading information in connection with the Board’s inspection processes.” (citations omitted)).

³⁹ AS 1215.04, *Audit Documentation*.

⁴⁰ *Id.* at .15.

additions to audit documentation after the report release date[,]” any documentation added “must indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it.”⁴¹

42. In connection with each of the Issuer Audits, Respondents failed to assemble a complete and final set of audit documentation by the documentation completion dates.⁴² Musaji maintained audit documentation for the Issuer Audits in various locations on an external hard drive, as well as in emails and other locations, rather than appropriately and timely assembling the documentation for retention.

43. In August 2022, the PCAOB’s Division of Registration and Inspections performed an inspection of the Firm. In advance of the inspection, on July 8, 2022, the Board’s inspectors informed Musaji that they would inspect the Firm’s 2020 PotNetwork Audit and 2021 Free Flow Audit. The documentation completion date for the 2020 PotNetwork Audit was November 11, 2021, and the documentation completion date for the 2021 Free Flow Audit was June 23, 2022.

44. During the inspection, Musaji provided to the Board’s inspectors dozens of work papers containing metadata showing that the documents were created or modified after the relevant documentation completion dates for both the inspected 2020 PotNetwork Audit and 2021 Free Flow Audit, as well as after the date that Musaji was informed of the audits selected for inspection. When the inspectors asked Musaji about the metadata during the inspection, he acknowledged changing the audit documentation after the documentation completion dates while assembling documentation for the inspection. On multiple occasions before this acknowledgement, Musaji failed to disclose to the Board’s inspection staff the changes to audit documentation.

45. Moreover, the Firm’s audit work papers for the 2020 PotNetwork Audit and 2021 Free Flow Audit failed to document the date of any additions to the audit documentation, the name of who prepared the additional documentation, and the reason for adding it to the work papers, in violation of PCAOB standards.⁴³

46. Respondents’ actions—providing improperly altered audit documentation to the Board’s inspection staff without timely disclosing the alterations prior to being asked about

⁴¹ *Id.* at .16.

⁴² *See id.* at .15.

⁴³ *Id.* at .16.

them—violated PCAOB audit documentation standards and constituted a failure to cooperate with a PCAOB inspection as required by PCAOB Rule 4006.⁴⁴

E. The Firm Violated PCAOB Standards Relating to Engagement Quality Reviews

47. PCAOB standards require that an engagement quality review be performed on all audits.⁴⁵ A firm may grant permission to a client to use the audit report only after an engagement quality reviewer provides concurring approval of issuance of the report.⁴⁶ An engagement quality reviewer from the firm that issues the engagement report must be a partner or another individual in an equivalent position.⁴⁷

48. The Firm failed to obtain engagement quality reviews for any of the Issuer Audits, and improperly permitted FreeFlow and PotNetwork to use its audit reports for the Issuer Audits without having obtained concurring approval of issuance from an engagement quality reviewer.

49. As a result, the Firm violated AS 1220.

F. The Firm Violated PCAOB Rules by Failing to File Form APs

50. PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, requires every registered public accounting firm to file a Form AP for each audit report it issues for an issuer, and to include the identity of the engagement partner and certain information about the issuer and other accounting firms that participated in the audit.

51. A Form AP must be filed by the 35th day after the date a firm's audit report is first included in a document filed with the Commission or, in the case of a registration statement under the Securities Act of 1933, by the tenth day after the date the audit report is first included in a document filed with the Commission.⁴⁸

⁴⁴ See *id.*; PCAOB Rule 4006.

⁴⁵ AS 1220.01, *Engagement Quality Review*.

⁴⁶ *Id.* at .13.

⁴⁷ *Id.* at .03.

⁴⁸ PCAOB Rule 3211(b).

52. The Firm failed to file a Form AP in connection with each of the Issuer Audits. As a result, the Firm violated PCAOB Rule 3211.

G. The Firm Violated PCAOB Rules and Quality Control Standards

53. PCAOB rules require a registered public accounting firm and its associated persons to comply with PCAOB quality control standards.⁴⁹ These standards require that a registered public accounting firm have a system of quality control for its accounting and auditing practice.⁵⁰ “A firm’s system of quality control encompasses the firm’s organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of complying with professional standards.”⁵¹

54. As described below, the Firm failed to establish policies and procedures sufficient to provide reasonable assurance that its personnel would (i) comply with applicable professional standards and regulatory requirements, and (ii) undertake only those engagements that it could reasonably expect to complete with professional competence.

i. The Firm’s System of Quality Control Failed to Provide Reasonable Assurance That Audit Work Performed by Firm Personnel Met Professional Standards and Regulatory Requirements

55. A firm’s system of quality control should include 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.⁵² To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover, among other things, planning, performing, and documenting the results of each engagement, and should address engagement quality reviews.⁵³

56. First, the Firm lacked sufficient policies and procedures to provide it with reasonable assurance that the Firm’s audits would be planned and performed in accordance with PCAOB standards. Respondents’ multiple audit violations in connection with the Issuer

⁴⁹ See PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁵⁰ See QC § 20.01, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice*.

⁵¹ *Id.* at .04.

⁵² *Id.* at .17.

⁵³ *Id.*

Audits demonstrate that the Firm’s system of quality control did not provide reasonable assurance that the Firm’s audits would be performed consistent with PCAOB standards.

57. Second, the Firm lacked sufficient policies and procedures to provide it with reasonable assurance that it would comply with AS 1215’s requirements regarding the assembly and retention of audit documentation. The Firm had a policy requiring that audit documentation be assembled for retention not more than 60 days after the report release date, which was inconsistent with AS 1215’s requirement that audit documentation be assembled for retention not more than 45 days after the report release date. In addition, as described above, the Firm failed to assemble for retention a complete and final set of audit documentation as of the documentation completion date for each of the Issuer Audits.

58. Third, the Firm lacked sufficient policies and procedures to provide it with reasonable assurance that engagement quality reviews would be performed on all audits in accordance with PCAOB standards.⁵⁴ Specifically, the Firm’s policies and procedures failed to provide reasonable assurance that each issuer audit would be subject to an engagement quality review and that the Firm would obtain concurring approval from an engagement quality reviewer prior to issuing an audit report, as required by AS 1220.

59. Fourth, the Firm lacked sufficient policies and procedures to provide it with reasonable assurance that the Firm would timely comply with PCAOB reporting requirements for the filing of Form AP. As described above, the Firm repeatedly failed to file Form AP in connection with each of the Issuer Audits.

60. As a result, the Firm violated QC § 20.

ii. The Firm’s System of Quality Control Failed to Provide Reasonable Assurance With Respect to Client Acceptance and Continuance

61. PCAOB quality control standards require that a firm establish policies and procedures “for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client.”⁵⁵ Those policies and procedures should also provide reasonable assurance that the firm “[u]ndertakes only those engagements that the firm can reasonably expect to be completed with professional competence.”⁵⁶

⁵⁴ *Id.*

⁵⁵ *Id.* at .14.

⁵⁶ *Id.* at .15.

62. At all relevant times, the Firm failed to maintain policies and procedures that provided reasonable assurance that it would only undertake engagements that it could complete with professional competence. This was evidenced by the Firm accepting issuer engagements despite lacking the necessary proficiency to perform the audits in compliance with PCAOB rules and standards.

63. As a result, the firm violated QC § 20.

H. Musaji Directly and Substantially Contributed to the Firm's Violations

64. PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*, states 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.”

65. Musaji is, and at all relevant times was, the Firm's sole owner and partner and served as the engagement partner for each of the Issuer Audits. Accordingly, Musaji was responsible for ensuring that the Firm complied with PCAOB rules and standards. He was also responsible for developing and maintaining quality control policies and procedures applicable to the Firm's auditing practice. As evidenced by the numerous audit and quality control violations described above, Musaji repeatedly failed to carry out those responsibilities.

66. Musaji knew, or was reckless in not knowing, that his acts and omissions would directly and substantially contribute to the Firm's violations of AS 1220, PCAOB Rules 3211 and 3526, and PCAOB quality control standards described above. As a result, Musaji violated PCAOB Rule 3502.

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), the Firm and Musaji are hereby censured;

- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the Firm's registration is revoked;
- C. After three years from the date of this Order, the Firm may reapply for registration by filing an application for registration pursuant to PCAOB Rule 2101;
- D. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Musaji 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);⁵⁷
- E. After three years from the date of this Order, Musaji may file a petition for Board consent to associate with a registered public accounting firm pursuant to PCAOB Rule 5302(b);
- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$50,000 is imposed, jointly and severally, on the Firm and Musaji;
 - 1. All funds collected by the PCAOB as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.
 - 2. Respondents shall pay the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies the Firm and Musaji as respondents in these proceedings, sets forth the title and PCAOB release number of

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

these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

3. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
 4. With respect to any civil money penalty amounts that Respondents shall pay pursuant to this Order, Respondents shall not, directly or indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of Respondents' payment of the civil money penalty pursuant to this Order, in any private action brought against either Respondent based on substantially the same facts as set out in the findings in this Order.
 5. By consenting to this Order, the Firm acknowledges that a failure to pay the civil money penalty described above may alone be grounds to deny any reapplication for registration pursuant to PCAOB Rule 2101.
 6. By consenting to this Order, Musaji acknowledges that a failure to pay the civil money penalty described above may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b).
- G. 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 to provide the Firm with reasonable assurance that: (a) Firm personnel will comply with PCAOB standards when conducting issuer audits; (b) Firm personnel will obtain, and adequately document, engagement quality reviews for all issuer audits in accordance with applicable

professional standards; (c) the Firm will properly assemble for retention complete and final sets of audit documentation in accordance with professional standards; and (d) the Firm will comply with PCAOB reporting requirements on a timely basis, including with respect to Form AP.

2. To provide with any future registration application a written certification, signed by the individual ultimately responsible for the Firm's system of quality control, to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with paragraph IV.G.1 above. The certification shall identify the actions undertaken to satisfy the conditions specified above, 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 Enforcement and Investigations may reasonably request.
- H. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Musaji is required to complete, prior to filing any petition to terminate his bar and for Board consent to reassociate with a registered public accounting firm, 50 hours of continuing professional education and training relating to PCAOB auditing standards (such hours shall be in addition to, and shall not be counted in, the continuing professional education he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

October 22, 2024