# 2022 Inspection Keith K Zhen CPA

(Headquartered in Brooklyn, New York)

June 26, 2023



PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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# 2022 INSPECTION

In the 2022 inspection of Keith K Zhen CPA, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies.

We selected for review four audits of issuers with fiscal years generally ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

## 2022 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

# OVERVIEW OF THE 2022 INSPECTION

The following information provides an overview of our 2022 inspection, which was our first inspection of this firm. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

## Firm Data and Audits Selected for Review

| | 2022 |
|---|---|
| **Firm data** | |
| **Total issuer audit clients in which the firm was the principal auditor** | 4 |
| **Total engagement partners on issuer audit work**[1] | 1 |
| **Audits reviewed** | |
| **Total audits reviewed** | 4 |
| **Audits in which the firm was the principal auditor** | 4 |
| **Integrated audits of financial statements and internal control over financial reporting (ICFR)** | 0 |
| **Audits with Part I.A deficiencies** | 1 |
| **Percentage of audits with Part I.A deficiencies** | 25% |

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) during the twelve-month period preceding the outset of the inspection.

inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

## Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2022 inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

| 2022 | |
|---|---|
| **Audit area** | **Audits reviewed** |
| **Related party transactions** | 2 |
| **A significant account** | 1 |
| **Leases** | 1 |
| **Accruals and other liabilities** | 1 |

# PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

## Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

### Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include audits where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

### Audits with Multiple Deficiencies

This classification includes audits where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

### Audits with a Single Deficiency

This classification includes audits where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

# PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

## Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

## Audits with Multiple Deficiencies

### Issuer A

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to a **Significant Account** and **Journal Entries**. This was the firm's initial audit of this issuer. The firm's internal inspection program inspected this audit and reviewed these areas but did not identify the deficiencies below.

#### Description of the deficiencies identified

With respect to a **Significant Account**, for which the firm identified a fraud risk:

To test certain aspects of this account, the firm selected items for testing that exceeded a monetary threshold. The following deficiencies were identified:

- With respect to certain items that exceeded the monetary threshold, the firm did not perform procedures, beyond obtaining certain issuer-prepared documents, to test that the items were (1) properly recorded and (2) recorded at the appropriate amount. (AS 2301.08 and .13)

- With respect to certain other items that exceeded the monetary threshold, the firm did not perform procedures, beyond obtaining certain issuer-prepared documents, to test that the items were recorded at the appropriate amount. (AS 2301.08 and .13)

- The firm did not perform procedures, beyond performing certain procedures at year end, to test the remaining population of items. (AS 1105.27; AS 2301.08 and .13)

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not perform procedures, beyond scanning a listing of journal entries, to identify and select journal entries and other adjustments for testing to address the risk of management override. (AS 2401.58)

## Audits with a Single Deficiency

None

# PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the four audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) an overview of the overall audit strategy, including the timing of the audit, and (2) the significant risks identified through its risk assessment procedures. In addition, in one of these audits, the firm did not make a required communication to the entire audit committee related to the corrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two of four audits reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In these instances, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern.*

- In three of four audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

- In the four audits reviewed, the firm's audit report stated that there were no critical audit matters, but the firm did not perform procedures to determine whether or not matters that were communicated, or required to be communicated, to the audit committee and that relate to accounts or disclosures that are material to the financial statements, were critical audit matters. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that critical audit matters should have been communicated in the auditor's report.

## PART I.C: INDEPENDENCE

In the 2022 inspection, we did not identify, and the firm did not bring to our attention, any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. Although this section does not include any instances of potential non-compliance that we identified or the firm brought to our attention, there may be instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

# PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

# APPENDIX A: FIRM’S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm’s response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm’s comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm’s response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm’s comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm’s response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

Responses to the draft inspection report of Keith K Zhen CPA

RE: Draft inspection report of Keith K Zhen CPA

Dear Mr. George Botic:

I am writing in response to the draft inspection report of Keith K Zhen CPA. We do not require confidential treatment for our responses to the draft inspection report. The finding/deficit that we intend to response are copied below, each being followed by our response.

Part I. A: Audits with unsupported opinions

## Audits with Multiple Deficiencies

### Issuer A

#### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to a **Significant Account** and **Journal Entries**. This was the firm's initial audit of this issuer. The firm's internal inspection program inspected this audit and reviewed these areas but did not identify the deficiencies below.

#### Description of the deficiencies identified

With respect to a **Significant Account**, for which the firm identified a fraud risk:

To test certain aspects of this account, the firm selected items for testing that exceeded a monetary threshold. The following deficiencies were identified:

- With respect to certain items that exceeded the monetary threshold, the firm did not perform procedures, beyond obtaining certain issuer-prepared documents, to test that the items were (1) properly recorded and (2) recorded at the appropriate amount. (AS 2301.08 and .13)

Response:

In the revenue recognition testing, we performed walkthrough to get an understanding of the revenue resignation processing. Next, we read client's revenue recognition memo to be sure the revenue recognition police follows ASC 606. Next, we selected the transactions with the largest amount to test by tracing and agreeing the transactions selected from GL to journal entries and then to the invoice, shipping documents and payments received, to make sure the revenue was properly recorded. Finally, in other audit area, such as costs of revenue testing, accounts receivable testing, and inventory testing, we cross referred to revenue transactions for existences and completeness.

- With respect to certain other items that exceeded the monetary threshold, the firm did not perform procedures, beyond obtaining certain issuer-prepared documents, to test that the items were recorded at the appropriate amount. (AS 2301.08 and .13)

Response:

In the revenue recognition testing, we performed walkthrough to get an understanding of the revenue resignation processing. Next, we read client's revenue recognition memo to be sure the revenue recognition police follows ASC 606. Next, we selected the transactions with the largest amount to test by tracing and agreeing the transactions selected from GL to journal entries and then to the invoice, shipping documents and payments received, to make sure the revenue was properly recorded. Finally, in other audit area, such as costs of revenue testing, accounts receivable testing, and inventory testing, we cross referred to revenue transactions for existences and completeness.

- The firm did not perform procedures, beyond performing certain procedures at year end, to test the remaining population of items. (AS 1105.27; AS 2301.08 and .13)

Response:

In the revenue recognition testing, we selected the transactions with the largest amount to test by tracing and agreeing the transactions selected from GL to journal entries and then to the invoice, shipping documents, and payments received.

The client had three subsidiaries which generated revenue, ****.

****

We selected all sales amount more than $2,000 (W/P 08R-02-02) to test. We totally selected $192,607.82, or 21% of the total sales of $918,219.13.

****

All **** sales were intercompany sale to ****, and accordingly, these sales will be eliminated in the consolidation.

****

We selected all sales amount more than $1,000 (W/P 08R-04-02) to test. We totally selected $70,011.18, or 82% of the total sales of $82,778.82.

Because we did not find exception after testing 21% of **** largest revenue transactions, we believed the revenue recognition was properly recorded, and did not extend the testing scope to test more transactions, based on our professional judgement. The inspection team believed that 21% was not sufficient to project to the entire population. We will improve our audit procedures as following,

**** Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

1. Beside we will continue to keep a copy of supporting documents tested, such as invoice shipping documents, and payment slip in our work paper, we will use a matrix table and tick marks to indicate the testing procedures were performed;

2. We will extend the testing scope to obtain sufficient audit evidence to support proper revenue recognition.

With respect to **Journal Entries**, for which the firm identified a fraud risk:

The firm did not perform procedures, beyond scanning a listing of journal entries, to identify and select journal entries and other adjustments for testing to address the risk of management override. (AS 2401.58)

Response:

Pursuant to AS 2401.58, we performed following procedures to test journal entries,

**a.** We performed walkthrough to understand how and when the client prepared the journal entries, especially for revenue recognition processing as below, extracted from Section 04I of "01R-02-01 KKZCPA Audit Program". We also interviewed the accountant and the outside consultant who prepared the consolidation work sheet and prepare the financial statements, about how they prepared the journal entries and consolidation journal entries.

*Sales Process (W/P 04I-01)*

1) The Company receives customer's order （customers' purchase requests） normally via following 3 ways:

(i) Customers place orders on the Company's website. The Sales Associate operates a program designed by IT, then the website orders are automatically transferred to the OMS as Sales Orders (SO). The sales associate makes sure that item number, quantity and total amount are correct.

(ii) Customers can also send purchase requests via email. Then, the Customer Service Associate will create a SO in the OMS based on the Customer's PO.

(iii) The Customer Service Associate answers Customers' phone calls to receive their purchase requests and then create a SO in the OMS based on the Customer's request.

The Company keeps a list to summarized all the POs from these three ways, see the **** *PO List* at W/P 04I-01.

2) The Sales Associate and the Customer Service Associate prints out the SO to the Warehouse's printer and sent messages to notify the Warehouse Associate that there were new sales orders coming in.

(i) The Warehouse Associate receives messages and go pick up the hard copy of the SO from the "shipping pending" box. Based on the SO, he picks up the right goods and hand them over to the Quality Control (QC) department.

(ii) If goods are not required additional manufacturing and packaging, then the goods will be returned to the warehouse waiting for shipping.

(iii) If goods require additional manufacturing/packaging, then goods will be transferred to the Production Department. After the Production completes jobs, finished goods will be transferred to the Warehouse for shipping.

3) The Sales Associate updated the SO, based on the good and quantity actually ready for shipping out. He also adds the shipping fees and the tracking number to the SO, and the send back and notifies the accounting department to process the payment. Shipping fees are separated from the sales/revenue.

4) The accountant receives the updated SO from the Warehouse Associate and creates an invoice accordingly. After invoice is created (sales credited, AR debited), he click "receive payment" button in the OMS to charge the Customer's credit card. After transaction is successful, he prints out the receipt and the paid invoice (AR credited, Cash debited). He gives the printed paid invoice to the Warehouse Associate, who puts it in the package delivered to the customer.

   Once an invoice is created, the OMS makes journal entry to recognize the sales. The accountant will review the journal entry to make sure it is properly created and posted. During our field work, the auditor randomly selected four **** invoices and one **** invoice from the accountant's desk, and asked he to trace to the OMS. We noted that the invoice date and the shipping date were the same, or very close, and were in the same accounting period, see *Sales Walk Through Pictures* at W/P 04I-10-01.

***b.*** We tested journal entries in following occasions by tracing and agreeing the transaction from GL to journal entries and supporting documents, such as invoices, shipping documents, and bank statements/bank transfer slip.

1. In cash disbursement cutoff testing-" We traced and agreed the selected cash disbursements from bank statements to GLs and the supporting documents, such as invoices,"

2. We tested client's journal entries for ROU by tracing to amortization schedule in W/P 05A-02-1100-05-07 & 08;

3. We tested the journal entries for inventory allowance at W/P 05A-01-1040-02,03,04;

4. When we tested expenses, "We selected the expenses with large amount to test by tracing and agreeing the expense item from GL to JE and then to the supporting documents, mostly the invoices.

5. We tested client's consolidating journal entries in "01R-80-01-02 **** consolidate wks", as more fully presented in the deficiency response section below.

6. We tested unusual transactions and seldom-uses accounts by testing the journal entries, as more fully presented in the response in the deficiency section below.

7. We documented our audit procedures regarding testing of journal entries in W/P 03G-05-07 PCA-CS-6.3 Fraud Risk Assessment, as extracted below,

1. **Discrepancies in the accounting records**, including:
   a. Transactions that are incomplete, untimely, or improperly recorded as to amount, accounting period, classification, or company policy

      None noted

   b. Balances or transactions that are unsupported or unauthorized.

      None noted

   c. Last-minute adjustments significantly affecting financial results.

      We reviewed the journal entries closed to the year ending, and performed cut-off testing, we did not find material exception.

**c.** We tested journal entries for unusual transactions and seldom-used accounts, such as

(a) **** recorded other income of $244,174.60 from a customer's waiving of prepaid deposit. We tested the supporting documents, including phone confirmation with this customer, and then traced to the journal entry recording this other income as following,

| | | | | | |
|---|---|---|---|---|---|
| 12/31/20 8:49 | 231 23200 DEFERRED INCOME | 244,174.60 | | Detail | OMS |
| 12/31/20 8:49 | 231 84000 OTHER INCOME | | 244,174.60 | Detail | OMS |

(b) **** wrote off most of its inventory due to obsolete and not selling these inventory items anymore, we tested the supporting document obtained during observation of physical inventory count, and traced to the journal entry #223 and #227 as below,

Journal entry #223

| | | | | | |
|---|---|---|---|---|---|
| 12/31/20 15:16 | 223 51300 INVENTORY-SALES COST | 44,464.00 | | Detail | OMS |
| 12/31/20 14:39 | 223 11710 INVENTORY-AT COST | | 44,464.00 | Detail | OMS |

Journal entry #227

| | | | | | |
|---|---|---|---|---|---|
| 12/31/20 15:18 | 227 51410 INVENTORY-ADJUST | 103,310.25 | | Detail | OMS |
| 12/31/20 15:18 | 227 11710 INVENTORY-AT COST | | 103,310.25 | Detail | OMS |

(c) When we observed the physical inventory count, we noted that the term of validity for an inventory item expired. We noted that **** wrote off this inventory, and we traced to the journal as below, Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

All G/L Accounts
**Journal Entry Log Report**
Transaction Date From : 10/01/2020 To : 12/31/2020 Print Time : 3/10/2021 6:00PM Page: 3

| Date | Time | Trans.# | Acct # | Description | Debit | Credit | Ref ID | Memo | Type | Proc by |
|---|---|---|---|---|---|---|---|---|---|---|
| 12/31/20 | 16:33 | 175 | 51410 | INVENTORY-ADJUST | 38,246.25 | | | | Detail | OMS |
| 12/31/20 | 14:01 | 175 | 11710 | INVENTORY-AT COST | | 38,246.25 | | | Detail | OMS |

(d) We noted that client reclassified common stock already issued from "shares to be issued" to APIC as the common stocks were issued based on the stock confirmation letter, and traced to the journal as following,

| Date | Time | Trans.# | Acct # | Description | Debit | Credit | Type | Proc by |
|---|---|---|---|---|---|---|---|---|
| 12/31/20 | 13:15 | 68 | 31500 | SHARES TO BE ISSUED | 1,417,140.00 | | Detail | OMS |
| 12/31/20 | 13:15 | 68 | 31400 | ADDITIONAL STOCK CAPITAL | | 1,417,140.00 | Detail | OMS |

(e)When we tested the expenses of ****, we noted that Acc#64900 "Stock compensation expense" is a seldom-used account and had only one transaction. We traced and agreed to the Journal entry as below, which was supported by the amortization schedule in "DAC Entry" work sheet in W/P 01R-80-01-02-032021-04 and extracted below,

| Date | Time | Trans.# | Acct # | Description | Debit | Credit | Type | Proc by |
|---|---|---|---|---|---|---|---|---|
| 9/30/20 | 18:03 | 48 | 64900 | STOCK COMPENSATION EXPEN | 8,890.41 | | Detail | OMS |
| 9/30/20 | 18:03 | 48 | 14270 | PREPAID EXPENSE | | 8,890.41 | Detail | OMS |

Amortization schedule of share compensation expense extracted from W/P 01R-80-01-02-032021-04

To amoritization shareholder compensation expense

| | | Six months ended June 30, 2019 | Nine months ended Sep, 30, 2019 | Years ended Dec, 31, 2019 | Three months ended March 31, 2020 | Six months ended June 30, 2020 |
|---|---|---|---|---|---|---|
| Simon | 6/1/2019-6/1/2020 | 410.96 | 1,671.23 | 2,931.51 | 1,232.88 | 2,068.49 |
| Sia | 6/7/2019-6/7/2020 | 315.07 | 1,575.34 | 2,835.62 | 1,232.88 | 2,164.38 |
| Sharon | 6/13/2019-6/13/2020 | 232.88 | 1,493.15 | 2,753.42 | 1,232.88 | 2,246.58 |
| Rob | 6/25/2019-6/25/2020 | 68.49 | 1,328.77 | 2,589.04 | 1,232.88 | 2,410.96 |
| Total | | 1,027.40 | 6,068.49 | 11,109.59 | 4,931.51 | 8,890.41 |

**d.** We tested journal entries made at the end of the period, even the amount is not material, such as

(a) **** journal entries related to common stock and APIC, as below,

| Date | Time | Trans.# | Acct # | Description | Debit | Credit | Memo | Type | Proc by |
|---|---|---|---|---|---|---|---|---|---|
| 12/31/20 | 17:29 | 66 | 31400 | ADDITIONAL STOCK CAPITAL | 321.00 | | CMO | Detail | OMS |
| 12/31/20 | 17:29 | 66 | 31110 | COMMON STCOK PAR VALUE | | 321.00 | CMO | Detail | OMS |
| 12/31/20 | 12:40 | 67 | 31110 | COMMON STCOK PAR VALUE | 20.00 | | | Detail | OMS |
| 12/31/20 | 12:40 | 67 | 31400 | ADDITIONAL STOCK CAPITAL | | 20.00 | | Detail | OMS |

(b) To accrue loan interest based on loan agreements,

****

| | | | | | | |
|---|---|---|---|---|---|---|
| 12/31/20 14:59 | 225 72500 LOAN INTEREST EXPENSE | 562.78 | | LOAN INTERES' | Detail | OMS |
| 12/31/20 14:59 | 225 23550 ACCRUED INTEREST | | 562.78 | LOAN INTERES' | Detail | OMS |

****

| | | | | | | |
|---|---|---|---|---|---|---|
| 12/31/20 18:47 | 107 72400 LOAN INTEREST EXPENSE | 61.70 | | | Detail | OMS |
| 12/31/20 18:47 | 107 23540 ACCRUED INTEREST | | 61.70 | | Detail | OMS |

****

| | | | | | | |
|---|---|---|---|---|---|---|
| 12/31/20 13:54 | 169 72500 LOAN INTEREST EXPENSE | 1,428.37 | | | Detail | OMS |
| 12/31/20 13:54 | 169 23560 ACCRUED INTEREST | | 1,428.37 | | Detail | OMS |

The balance of accrued interest expenses was supported by the loan schedule in W/P 06L-02-2510-06, as extracted as below.

| 12/31/2020 | | | | | |
|---|---|---|---|---|---|
| | EDIL | | | PPP | Total |
| | **** | **** | **** | | |
| 12/31/21 | 1,988.70 | 783.43 | 77.58 | 127,740.00 | 130,589.71 |
| 12/31/2022 | 3,077.72 | 1,212.43 | 136.99 | | 4,427.14 |
| 12/31/23 | 3,195.12 | 1,258.71 | 142.23 | | 4,596.06 |
| 12/31/2024 | 3,317.03 | 1,306.72 | 147.65 | | 4,771.40 |
| 12/31/25 | 3,443.58 | 1,356.56 | 153.24 | | 4,953.38 |
| thereafter | 140,215.43 | 55,245.76 | 6,069.28 | | 201,530.47 |
| | (5,237.58) | (2,063.61) | (226.97) | | (7,528.16) |
| Total | 150,000.00 | 59,100.00 | 6,500.00 | 127,740.00 | 343,340.00 |
| Accured Interest | 3,312.17 | 1,304.99 | 122.83 | | 4,739.99 |

**e.** We tested the consolidation journal entries which were posted directly to the consolidated trial balance and then to the financial statements, and not to the client's book. We interviewed the outside CPA financial consultant who advised the book keeping and prepared the consolidated financial statements, to get an understanding of the control of journal entry preparation and financial statements preparation. We tested the consolidation journal entries in "01R-80-01-02 **** consolidate wks" prepared by the consultant, as below,

| | | |
|---|---|---|
| InterCo elimination entry | | |
| 12/31/2020 | | |
| | | |
| | | |
| 1. To eliminate intercompany transactions - interco due | | |
| Other receivable **** | 319,586.18 | |
| Other payable **** | | 133,736.72 |
| Other payable **** | | 181,417.53 |
| Other payable **** | | 4,431.93 |
| | | |
| | | |
| Other receivable **** | 414,321.21 | |
| Other payable **** | | 179,997.94 |
| Other payable **** | | 101,235.27 |
| Other payable **** | | 133,088.00 |
| | | |
| | | |
| Other receivable **** | 321,634.79 | |
| Other payable **** | | 185,143.68 |
| Other payable **** | | 135,266.70 |
| Other payable **** | | 1,224.41 |
| | | |
| Other receivable **** | 66,466.82 | |
| Other payable **** | | 7,759.51 |
| Other payable **** | | 53,707.31 |
| Other payable **** | | 5,000.00 |
| | | |
| Accounta Receivable **** | | - |
| Accounts Payable **** | - | |
| | | |
| Accounts Receivable | | - |
| Accounts Payable | - | |
| | | |
| | | |
| 2. To eliminate **** investment into subsuduiary corporations | | |
| Investment to **** | 932,143.70 | |
| Investment to **** | 1,832,250.00 | |
| Investment to **** | 1,198,425.56 | |
| Additional paid in capital | | 3,962,819.26 |
| | | |
| | | |
| 3. To eliminate intercompany sales | | |
| Sales **** | 22,809.71 | |
| COS **** | | 22,809.71 |
| Inventory | | - |
| | | |
| Sales **** | 672.44 | |
| COS **** | | 672.44 |
| Inventory | | - |

For comparison purpose, we prepared our own consolidation journal entries, see the "EJEs" in work sheet in W/P 01R-03-02 ConTB **** 123120. Then, comparing with the client's EJEs, we believed client's consolidation journal entries were reasonable.

We performed procedure a, b, c, d, e, as mentioned above to test journal entries, we believe we followed the four requirements specifically outlined in AS 2401.58.

## Part I.B Other Instances of Non-compliance with PCAOB Standards or Rules

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In the four audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) an overview of the overall audit strategy, including the timing of the audit, and (2) the significant risks identified through its risk assessment procedures. In addition, in one of these audits, the firm did not make a required communication to the entire audit committee related to the corrected misstatements. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees.*

Response:

For Issue B Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act. and Issue C Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

When the audit team interviewed the CEO, who is also the solo member of the board of directors, we infirmed the client our overall audit strategy, including the timing of the audit and the significant risk identified during our risk assessment procedures. However, we only documented the client's responses to our inquiry, and we did not document our notification to the client. In addition, during our audit, we had many communications with the CEO regarding audit matters, via telephone, email, WhatsApp, WeChat, etc. We should have printed out these communications and put into our work paper. While we thought we had communicated our audit strategy and risk assessment to the client during the audit process, we did not put the audit strategy and risk assessment in our written communication letter with the audit committee equivalent in the audit conclusion communication.

For Issue D Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.

The board of directors of Issue D consists of three members, who are CEO, CFO and COO. When the audit team interviewed the officers, we infirmed the officers our overall audit strategy, including the timing of the audit and the significant risk identified during our risk assessment procedures. While we documented the client's responses to our inquiry, we did not document the detail of our notification to the client, and only stated "Discussing audit plan, and then communicated to the client " in work paper "03G-90-02 Audit Team Meeting". In addition, during our audit, we had many communications with the officers regarding the audit matters, via telephone, email, WhatsApp, WeChat, etc. We should have printed out these communications and put into our work paper. Because we thought we had communicated our audit strategy and risk assessment to the client during the audit, we did not put the audit strategy and risk assessment in our written communication letter with the audit committee equivalent in the audit conclusion communication.

For Issuer A

The board of directors of Issuer A consist of five members and the chair is the CEO and CFO. When the audit team visited the client's office to perform the audit around the year end 2020, during the COVID-19 pandemic, we met the board members and discussed the audit matters. We should have documented these discussion in our work paper.

When the audit team interviewed the CEO, we infirmed her our overall audit strategy, including the timing of the audit and the significant risk identified during our risk assessment procedures. However, we only documented the client's responses to our inquiry, and we did not document our notification to the client. Since we thought we had communicated our audit strategy and risk assessment to the client during the audit process, we did not put the audit strategy and risk assessment in our written communication letter with the audit committee equivalent in the audit conclusion communication.

Similarly, the audit team discussed the audit adjustments/corrected misstatements with the CEO, who is also a member and the chair of the board of directors. And the audit team obtained the CEO's consent for the corrected misstatements. We assumed that the chair had discussed the corrected misstatements with the entire board. Furthermore, the client had made the corrected misstatements in its book and prepared an updated trial balance for us to review. Then, the client prepared the financial statements based on the updated trail balance. Therefore, the audit team did not include the corrected misstatement schedule in the written communication letter with the board.

After the inspection, we have realized that we should have documented the significant communication with the client, no matter in what format. And most importantly, we should have included the audit strategy, risk assessment, and corrected mistakes in the written communication letter with the audit committee equivalent in the audit conclusion communication.

- In two of four audits reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In these instances, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern.*

<u>Response:</u>

Pursuant to AS 2415.12, we should have put the going concerning paragraph immediately following the opinion paragraph in the audit reports.

- In three of four audits reviewed, the year the firm began serving consecutively as the company's auditor that was included in the firm's audit report was incorrect. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

Response:

The engagement team incorrectly understood that the year the firm began serving consecutively as the issuer's auditor was the first year in which the audit report was issued. We should have correctly understood "the year the firm began serving consecutively as the issuer's auditor was the year when the firm signs an initial engagement letter to audit a company's financial statements or when the firm begins performing audit procedures, whichever is earlier.", pursuant to AS 3101.10.b.

- In the four audits reviewed, the firm's audit report stated that there were no critical audit matters, but the firm did not perform procedures to determine whether or not matters that were communicated, or required to be communicated, to the audit committee and that relate to accounts or disclosures that are material to the financial statements, were critical audit matters. In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. These instances of non-compliance do not necessarily mean that critical audit matters should have been communicated in the auditor's report.

Response:

The audit team realized that the CAM is relatively new to the audit requirement. We paid special attention to this matter, and performed following procedures during the audit,

1. In the first audit team meeting, the engagement partner lectured CAM to the audit team members, and went through PPC Template PCA-CX-16_6 Determination of Critical Audit Matters with the audit team members. The engagement partner required audit team members consider any audit matter could be a CAM, and report to the supervisor promptly and accumulated the consideration in work paper.

2. Since the audit team did not identify any CAM during the audit, we did not document any such consideration in work paper;

3. In the conclusion audit team meeting, the audit team members went through the audit procedures and reconsider any audit matter should be a CAM. We did not identify any CAM and documented such audit conclusion in PPC Template PCA-CX-16_6 Determination of Critical Audit Matters by stating "none noted", and some other work paper, such as "01R-02-01 KKZCPA Audit Program", and "03G-90-02 Audit Team Meeting".

After the inspection, we have realized that, based on AS 3101.12, "Note: It is expected that, in most audits, the auditor would determine that at least one matter involved especially challenging, subjective, or complex auditor judgment.", we should had documented the consideration process we performed for identifying CAM for at least one matter, even though we did not identify a CAM, and not only just documented the audit conclusion of none CAM noted.

Redacted pursuant to Section 104(f) and/or (g)(2) of the Sarbanes-Oxley Act.