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# 2023 Inspection PricewaterhouseCoopers Zhong Tian LLP

(Headquartered in Shanghai, People's Republic of  
China)

August 22, 2024

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

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105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002



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## 2023 INSPECTION

In the 2023 inspection of PricewaterhouseCoopers Zhong Tian LLP, 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. Our inspection was conducted in cooperation with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China.

We selected for review seven audits of issuers. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

### 2023 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 2023 INSPECTION

The following information provides an overview of our 2023 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

	2023
<b>Firm data</b>	
Total issuer audit clients in which the firm was the principal auditor	59
Total issuer audits in which the firm was not the principal auditor	115
Total engagement partners on issuer audit work <sup>1</sup>	100
<b>Audits reviewed</b>	
Total audits reviewed <sup>2</sup>	7
Audits in which the firm was the principal auditor	6
Audits in which the firm was not the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	7
Audits with Part I.A deficiencies	7
Percentage of audits with Part I.A deficiencies	100%

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

<sup>1</sup> 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*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

<sup>2</sup> The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit.

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 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 2023 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.

2023	
Audit area	Audits reviewed
Cash and cash equivalents	6
Revenue and related accounts	5
Related party transactions	3
Goodwill and intangible assets	3
Other investments	2

## PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) 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 or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

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) or fulfill the objectives of its role in the audit(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 instances 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 instances 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 instances 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 instances 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 instances 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 (1) supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

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 and ICFR audits related to **Property, Plant, and Equipment ("PP&E"), Depreciation Expense, and Accruals and Other Liabilities.**

### Description of the deficiencies identified

With respect to **PP&E**, for which the firm identified a significant risk:

The firm's approach for substantively testing the impairment of PP&E was to test the issuer's process. The issuer engaged external specialists to develop certain assumptions that were used by the issuer to estimate the value-in-use (VIU) of cash generating units (CGUs) with impairment indicators. The company's specialists used financial and non-financial data produced by the issuer, assumptions developed by the issuer, and information from external sources to develop their assumptions. The following deficiencies were identified:

- The firm did not identify and test any controls over the completeness of the assets included in the issuer's components and CGUs. (AS 2201.39)
- The firm did not identify and test any controls over the (1) accuracy and completeness of the data produced by the issuer, (2) relevance and reliability of information obtained from external sources, (3) reasonableness of certain significant assumptions, and (4) appropriateness of the methods, used by the company's specialists to develop their assumptions. (AS 2201.39)
- The firm selected for testing a control that included the issuer's review of its components and CGUs for indicators of potential impairment, including a review of the composition of the components and CGUs. The firm did not evaluate the specific review procedures that the control owner performed to assess (1) whether the occurrence of certain events represented indicators of potential impairment and (2) the composition of the components and CGUs to determine whether they represented the smallest identifiable group of assets that generated independent cash inflows. (AS 2201.42 and .44)
- The firm did not sufficiently evaluate whether the method the issuer used to perform its impairment analyses was in conformity with the applicable financial reporting framework, including the requirements of International Accounting Standard 36, *Impairment of Assets*, because the firm did not evaluate whether the issuer's components and CGUs represented the smallest identifiable group of assets that generated independent cash inflows. (AS 2501.10)
- The firm did not evaluate whether certain events that occurred during the year were identified and evaluated by the issuer as indicators of potential impairment. (AS 2301.08)
- The firm did not perform sufficient procedures to evaluate the reasonableness of a significant assumption developed (and used) by the issuer to estimate the VIU of one CGU because it limited its procedures to comparing the assumption to historical results, and did not evaluate significant differences between the assumption and historical results. (AS 2501.16)
- The firm did not perform sufficient procedures to evaluate the reasonableness of a significant assumption developed (and used) by the issuer to estimate the VIU of another CGU because it did not take into account, beyond inquiry of management, the issuer's ability to carry out its intended courses of action. (AS 2501.16)
- The firm did not perform procedures to evaluate the reasonableness of an assumption developed by the company's specialists and used by the issuer to estimate the VIUs of certain other CGUs, beyond obtaining and reading the reports prepared by the company's specialists. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialists as audit evidence. (AS 1105.A1 - .A10; AS 2501.16)



**With respect to Depreciation Expense:**

The issuer depreciated PP&E using either a straight-line method based on the estimated useful lives of the assets or a units of production method using certain assumptions developed by company-employed and externally engaged specialists to estimate the expected use or output of the PP&E. The company's specialists used financial and non-financial data produced by the issuer, assumptions developed by the issuer, and information from external sources to develop the assumptions.

The firm excluded depreciation expense from the scope of its financial statement and ICFR audits for certain of the issuer's components but did not evaluate whether (1) specific risks of material misstatement existed at these components and (2) the risks of material misstatement the firm identified for the components subject to audit procedures also applied to these components such that, in combination, these risks presented a reasonable possibility of material misstatement. (AS 2101.11 and .12; AS 2201.B10)

For depreciation expense computed on a straight-line basis at in-scope components, the following deficiencies were identified:

- The firm did not identify and test any controls over the reasonableness of significant assumptions the issuer used to determine the useful lives of certain PP&E. (AS 2201.39)
- The firm did not perform any procedures to evaluate the reasonableness of significant assumptions the issuer used to determine the useful lives of certain PP&E. (AS 2501.16)

For depreciation expense computed on a units of production basis at in-scope components, the following deficiencies were identified:

- The firm did not identify and test any controls over the (1) accuracy and completeness of the data produced by the issuer, (2) relevance and reliability of information obtained from external sources, (3) reasonableness of certain assumptions, and (4) appropriateness of the methods, used by the company's specialists to develop their assumptions. (AS 2201.39)
- The firm did not perform procedures to test depreciation expense computed using the units of production method, beyond obtaining and reading the reports prepared by the company's specialists. Further, the firm did not perform any procedures with respect to its use of the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07) In addition, the firm did not perform procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of the data produced by the issuer that was used to compute this depreciation expense. (AS 1105.10)

**With respect to Accruals and Other Liabilities:**

For certain accruals and other liabilities, the following deficiencies were identified:

- The firm did not identify and test any controls over the completeness or valuation of certain accruals and other liabilities. (AS 2201.39)

- The firm did not perform any substantive procedures to test the valuation of certain other liabilities. (AS 2501.07)
- The firm did not perform sufficient substantive procedures to test the completeness and valuation of certain accrued liabilities because its procedures were limited to reviewing a sample of vendor invoices paid subsequent to year end. (AS 2301.08; AS 2501.07)

For a certain other liability, the issuer engaged external specialists to prepare reports that were used by the issuer to estimate this liability. The company's specialists used financial and non-financial data produced by the issuer, assumptions developed by the issuer, and information from external sources to prepare their reports. The following deficiencies were identified:

- The firm selected for testing two controls that consisted of the issuer's (1) review of this other liability and (2) comparison of the recorded liability to the reports prepared by the company's specialists. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)
- The firm did not identify and test any controls over the (1) data produced by the issuer, (2) relevance and reliability of information obtained from external sources, (3) reasonableness of certain assumptions, used by the company's specialists to prepare their reports that were used to estimate the other liability, and (4) appropriateness of the methods, used by the company's specialists. (AS 2201.39)
- The firm did not perform any procedures with respect to its use of the work of the company's specialists as audit evidence. (AS 1105.A1 - .A10)

## Issuer B – Communication Services

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**, **Deferred Revenue**, **Variable Interest Entities (VIEs)**, and **Related Party Transactions**.

### Description of the deficiencies identified

With respect to **Revenue** and **Deferred Revenue**:

The issuer used multiple information-technology (IT) systems to initiate, process, and record transactions related to certain revenue and deferred revenue. The following deficiencies were identified:

- The firm selected for testing certain automated controls over this revenue and deferred revenue that consisted of the configuration of the IT systems to automatically perform certain functions based on pre-established parameters, and the firm used a "test of one" approach to test these controls. The firm's testing of these automated controls using a sample of only one instance of each processing alternative was not sufficient because the firm did not test the configuration or

programming of these controls or perform other procedures that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.46)

- As a result of the deficiencies in the firm's testing of the automated controls described above, the firm's testing of certain IT-dependent manual controls was not sufficient because those manual controls relied on the effectiveness of these automated controls. (AS 2201.46)
- The sample sizes the firm used in certain of its substantive procedures to test revenue and deferred revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)
- The firm did not perform procedures to evaluate the appropriateness of the method used by the issuer to recognize certain revenue. (AS 2301.08)

**With respect to VIEs:**

The issuer derives revenue through consolidated VIEs and relies on contractual arrangements with the VIEs and their shareholders to control the business operations of the consolidated VIEs. The issuer engaged an external specialist to provide a legal opinion regarding the issuer's consolidated VIEs, including the validity and enforceability of contractual arrangements with the VIEs and their shareholders, and the firm used the work of the company's specialist as audit evidence. The following deficiencies were identified:

- The firm selected for testing controls that consisted of management's review of the (1) validity and enforceability of new contractual arrangements with VIEs and their shareholders and (2) legal opinion prepared by the company's specialist, which described uncertainties regarding the interpretation and application of current laws, regulations, and rules related to the structure of the VIEs. The firm did not evaluate the specific review procedures that the control owner performed to evaluate the effect of the uncertainties described in the legal opinion prepared by the company's specialist on the issuer's ability to consolidate the VIEs. (AS 2201.42 and .44)
- The firm did not sufficiently evaluate the relevance and reliability of the work performed by the company's specialist and whether the specialist's findings support or contradict the issuer's rights and obligations related to the consolidation of the VIEs because it did not (1) evaluate the nature of the uncertainties described in the legal opinion prepared by the company's specialist and (2) perform additional procedures to address the risks associated with those uncertainties. (AS 1105.A9 and .A10)

**With respect to Related Party Transactions:**

The firm selected for testing a control that included the issuer's review and approval of the pricing used in related party transactions. The firm did not perform procedures to test, or test any controls over, the completeness of a system-generated report from which it made its selections to test this control. (AS 1105.10)

## Issuer C – Consumer Discretionary

### Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue, Receivables, Deferred Revenue, Inventory, and Journal Entries.**

### Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk; **Receivables**, for which the firm identified a fraud risk; **Deferred Revenue**; and **Inventory**:

The issuer used multiple IT systems to initiate, process, and/or record transactions related to certain revenue, receivables, deferred revenue, and inventory. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by certain of these IT systems. As a result of the following deficiency in the firm's testing of IT general controls (ITGCs), the firm's testing of these automated and IT-dependent manual controls was not sufficient. (AS 2201.46)

The firm selected for testing various change management controls over certain IT systems that consisted of the documentation, review, testing, and approval of changes prior to their migration into production. The issuer used certain other IT systems in the performance of these change management controls ("change management systems"), and the firm made its selections for testing the change management controls from reports that were generated from the change management systems subsequent to year end. The firm did not perform sufficient procedures to test the completeness of the system-generated reports from which it made its selections for testing because the firm's use of the change management systems as the source of the population of changes relied on the automated functionality of those systems, and the firm did not evaluate whether changes were made to the change management systems during the period from year end to the date of testing. (AS 1105.10)

As a result of the firm's ITGC testing deficiency discussed above, the firm did not perform sufficient substantive procedures, as follows:

- The firm used certain system-generated data to substantively test revenue, receivables, deferred revenue, and inventory but did not test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of this data. (AS 1105.10)
- The sample size the firm used in certain of its substantive procedures to test revenue was too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

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

The firm identified fraud criteria for journal entries and obtained system-generated reports from which it made its selections for testing. The system-generated reports provided by the issuer omitted key information necessary for the firm to make its selections based on certain of the identified fraud criteria.

The firm did not perform procedures to evaluate the impact of the omitted information on its ability to identify and select journal entries for testing that met certain of the identified fraud criteria. (AS 2401.61)

## Issuer D

### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue**.

### Description of the deficiencies identified

The issuer used multiple IT systems to calculate and record certain revenue based on the related order information. The following deficiencies were identified:

- The firm selected for testing certain automated controls that consisted of the configuration of various IT systems to automatically process and record certain revenue. The firm did not identify and test any controls over the accuracy of the order information included in the source systems that were used in the operation of these controls. (AS 2201.39)
- The firm did not identify and test any controls over the accuracy of the order information used to calculate and record certain other revenue. (AS 2201.39).
- The firm did not perform procedures to test, or (as discussed above) sufficiently test controls over, the accuracy of the order information used in its substantive testing of certain revenue. (AS 1105.10)
- The firm did not perform sufficient substantive procedures to test the allocation of certain other revenue because it did not perform any procedures to test the accuracy of the order information used to calculate and record the revenue. (AS 2301.08)
- The sample sizes the firm used in certain of its substantive procedures to test revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to certain of the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

## Issuer E – Consumer Staples

### Type of audit and related area affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Inventory**.

### Description of the deficiencies identified

The issuer used multiple IT systems to initiate, process, and record transactions related to inventory. The following deficiencies were identified:

- The firm selected for testing certain automated controls over inventory that consisted of the configuration of the IT systems to automatically process and record inventory-related transactions, and the firm used a “test of one” approach to test these controls. The firm’s testing of these automated controls using a sample of only one instance of the controls’ operation was not sufficient because the firm did not test the programming of these controls or perform other procedures that would have provided sufficient appropriate audit evidence that these controls were designed and operating effectively. (AS 2201.46)
- The firm selected for testing certain manual controls over inventory that consisted of the issuer’s (1) approval of purchase orders and (2) review and confirmation of vendor balances. The firm did not identify and test any controls over the completeness of certain system-generated reports used in the operation of these controls. (AS 2201.39)
- The sample sizes the firm used in certain of its substantive procedures to test inventory were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm’s control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

## Issuer F – Industrials

### Type of audit and related area affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm’s role in the ICFR audit related to **Accruals and Other Liabilities**.

### Description of the deficiencies identified

The principal auditor instructed the firm to test the design and operating effectiveness of certain controls related to accruals and other liabilities. The following deficiencies were identified:

- The firm was instructed to use the work of the issuer’s internal auditors as evidence regarding the operating effectiveness of a control that consisted of the issuer’s review and approval of purchase orders. The firm did not identify that the internal auditors had not sufficiently tested the completeness of the system-generated reports from which they made their selections to test this control, and the firm did not perform procedures to test, or test any controls over, the completeness of those reports. (AS 1105.10)
- The firm was instructed to independently test another control that consisted of the issuer’s review and approval of journal entries for the accrual of open purchase orders. The firm did not identify and test any controls over the accuracy and completeness of certain data used in the operation of this control. (AS 2201.39)

## Audits with a Single Deficiency

### Issuer G – Communication Services

#### Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **VIEs**.

#### Description of the deficiency identified

The issuer derives revenue through consolidated VIEs and relies on contractual arrangements with the VIEs and their shareholders to control the business operations of the consolidated VIEs. The issuer engaged an external specialist to provide a legal opinion regarding the issuer's consolidated VIEs, including the validity and enforceability of contractual arrangements with the VIEs and their shareholders, and the firm used the work of the company's specialist as audit evidence.

The firm did not sufficiently evaluate the relevance and reliability of the work performed by the company's specialist and whether the specialist's findings support or contradict the issuer's rights and obligations related to the consolidation of the VIEs because it did not (1) evaluate the nature of uncertainties described in the legal opinion prepared by the company's specialist and (2) perform additional procedures to address the risks associated with those uncertainties. (AS 1105.A9 and .A10)

## 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) or fulfill the objectives of its role in the audit(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 one of seven audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation*.

- In one of six audits reviewed, the firm did not make a required communication to the audit committee related to the name, location, and planned responsibilities of other persons not employed by the firm that performed audit procedures in the audit. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.
- In two of six audits reviewed, the firm did not provide a copy of the management representation letter to the audit committee. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.
- In one of seven audits reviewed, the firm did not perform procedures to determine whether all individuals who participated in the audit were in compliance with independence requirements. In this instance, the firm was non-compliant with AS 2101, *Audit Planning*.
- In one of seven audits reviewed, the firm did not evaluate certain factors when determining that there were no risks of material misstatement related to a relevant assertion for a significant account and disclosure. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.
- In one of seven audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.
- In one of six 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 this instance 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 one of six audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated to the audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, 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*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.



## PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that we identified and the firm brought to our attention, there may be other 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.

### PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

- Under Rule 2-01(c)(1) of Regulation S-X, certain financial relationships impair an accountant's independence. In seven audits reviewed and two other audits, we identified multiple instances across two issuers where certain of the firm's personnel had a financial relationship, other than an investment in an audit client, in which this circumstance appears to have occurred.
- Under Rule 2-01(c)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. In seven audits reviewed and one other audit, we identified three instances across two issuers in which this circumstance appears to have occurred related to certain non-audit services and tax services.

### Firm-Identified

During the inspection, the firm brought to our attention that it had identified, through its independence monitoring activities, six instances across five issuers,<sup>3</sup> in which the firm or its personnel appeared to have impaired the firm's independence because it may not have complied with Rule 2-01(c) of Regulation S-X or PCAOB Rule 3523 related to maintaining independence. Approximately 17% of these instances of potential non-compliance involved an associated firm.

While we have not evaluated the underlying reasons for the 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 any 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 these firm-identified instances of potential non-compliance across firms.

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<sup>3</sup> The firm-identified instances of potential non-compliance do not necessarily relate to the issuer audits that we selected for review.

The instances of potential non-compliance related to financial relationships, audit committee pre-approval, and tax services for a person in financial reporting oversight role:

- The firm reported three instances of potential non-compliance with Rule 2-01(c)(1) of Regulation S-X regarding financial relationships, which occurred at the firm or involved its personnel. Of these instances, two related to investments in an audit client and one related to an other financial relationship with an audit client. Two of these instances related to a member of an engagement team.
- The firm reported two instances of potential non-compliance with Rule 2-01(c)(7) of Regulation S-X regarding audit committee pre-approval. One of these instances related to services provided by an associated firm without the engagement having been pre-approved by the audit committee.
- The firm reported one instance of non-compliance with PCAOB Rule 3523 regarding tax services provided to a person in a financial reporting oversight role at the issuer.

The firm has reported to us that it has evaluated the instances of potential non-compliance for issuer audit clients in which the firm was the principal auditor and determined in all instances that its objectivity and impartiality were not impaired. In addition, the firm reported to us that it has communicated the remaining instance of potential non-compliance to the principal auditor and that the principal auditor determined that its objectivity and impartiality were not impaired. The firm also reported to us that, where applicable, it has communicated all of these instances to the issuers' audit committees in accordance with PCAOB Rule 3526.

## 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.



普华永道

Ms. Christine Gunia  
Director – Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington  
DC 2006 USA

July 8, 2024

Dear Ms. Gunia,

**Re: Response to the Draft Report on the 2023 Inspection of PricewaterhouseCoopers Zhong Tian LLP (the “Firm”)**

On behalf of the Firm, we are pleased to provide our response to the Public Company Accounting Oversight Board (“PCAOB”) Draft Report on the 2023 Inspection of our Firm dated June 6, 2024 (“Draft Report”).

We recognize the inspection process and acknowledge the PCAOB observations and that they provide a valuable opportunity to improve the quality of our audits. We actively use feedback from internal and external review processes in our ongoing efforts to continuously improve audit quality, and we will address the matters raised in the Draft Report in a thorough and thoughtful way. We appreciate the committed professionalism of the PCAOB staff during the inspection. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate and independent audit reports.

We have evaluated each of the Draft Report observations set forth in *Part I.A: Audits with Unsupported Opinions* and *Part I.B: Other Instances of non-Compliance with PCAOB Standards or Rules*, and with respect to those observations have taken appropriate actions under both PCAOB standards and our policies. Our evaluation included those steps we considered necessary to comply with PCAOB AS 2901, *Consideration of Omitted Procedures After the Report Date*. Our evaluation of all observations did not result in any changes to our audit reports.

With respect to the observations under *Part I.C: Independence*, the Firm is committed to maintaining a system of quality control that provides reasonable assurance with respect to compliance with applicable regulatory requirements. We appreciate the dialogue with the PCAOB with respect to this important matter and look forward to continuing that dialogue and discussing our perspectives with the PCAOB, as we believe this dialogue will be of assistance to the continuing evaluation and conclusions with respect to these matters. We remain encouraged that our ongoing dialogue with the PCAOB will support the Firm’s commitment to the maintenance of reasonable and effective quality control systems in this area.

普华永道中天会计师事务所(特殊普通合伙)  
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普华永道

We would be pleased to discuss any aspects of our response or any other questions you may have.

Yours sincerely

A handwritten signature in black ink, appearing to be "Daniel Li".

Daniel Li  
Chairman  
PricewaterhouseCoopers Zhong Tian LLP

A handwritten signature in black ink, appearing to be "Kevin Wang".

Kevin Wang  
Assurance Leader  
PricewaterhouseCoopers Zhong Tian LLP

