2023 Inspection
YCM CPA INC.

(Headquartered in Irvine, California)

September 27, 2024

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

PCAOB RELEASE NO. 104-2024-159

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2023 INSPECTION

In the 2023 inspection of YCM CPA INC., 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 two audits of issuers with fiscal years ending in 2022. 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
Firm data	
Total issuer audit clients in which the firm was the principal auditor	10
Total engagement partners on issuer audit work[1]	1
Audits reviewed	
Total audits reviewed	2
Audits in which the firm was the principal auditor	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	2
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 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.

[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.

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**
Revenue and related accounts	2
Cash and cash equivalents	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, 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), including instances of non-compliance with PCAOB rules related to registration and reporting. 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 supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A) and industry sector. 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 – Consumer Staples

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Accounts Receivable**, **Cash and Cash Equivalents**, and **Journal Entries**.

Description of the deficiencies identified

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

The firm's approach for testing one type of revenue included performing tests of details for a sample of transactions from one day during the year. The firm did not perform any procedures to test the population of transactions in the remaining days of the year. (AS 2315.24) In addition, the firm did not perform sufficient procedures to test the transaction price for the sample of transactions, because it limited its procedures to testing that the issuer received certain cash. (AS 2301.08 and .13)

The firm's approach for testing a second type of revenue included performing tests of details for a sample of transactions. The firm identified differences in its testing for certain transactions. The firm did not (1) consider the nature and cause of the differences; (2) project the differences to the remaining revenue population; and (3) evaluate the results and take appropriate action. (AS 2315.26, .27, and .28)

The firm did not perform any substantive procedures to test a third type of revenue. (AS 2301.08 and .13)

With respect to **Accounts Receivable**:

The firm's approach for substantively testing the allowance for doubtful accounts was to develop an independent expectation. The following deficiencies were identified:

- The firm did not perform procedures to test, or test controls over, the accuracy of certain data it used to develop its independent expectation. (AS 1105.10)

- The firm did not perform any procedures to demonstrate it had a reasonable basis for certain assumptions it developed and used in determining its independent expectation. (AS 2501.22)

- The firm did not compare its independent expectation to the issuer's recorded allowance for doubtful accounts and evaluate the difference. (AS 2501.26; AS 2810.13)

With respect to **Cash and Cash Equivalents**, for which the firm identified a significant risk:

The firm sent positive confirmation requests for cash and cash equivalents balances and used an external party to receive the confirmation responses. The firm did not maintain control of the confirmation responses through direct communication with the intended recipients of the confirmation requests. (AS 2310.28)

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

The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient substantive procedures to test those journal entries, because it limited its procedures to certain journal entries without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)

Issuer B – Consumer Staples

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue** and **Journal Entries**.

Description of the deficiencies identified

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

The firm did not perform procedures to test, or test controls over, the accuracy of certain system-generated data that it used to test certain revenue. (AS 1105.10)

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

The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient substantive procedures to test those journal entries, because it limited its procedures to certain journal entries without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)

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), including instances of non-compliance with PCAOB rules related to registration and reporting. 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 two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In these instances, the firm was non-compliant with AS 1105, *Audit Evidence*.

- In one audit reviewed, the firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In one audit 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, or required to be 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.

- In one audit, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. 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.*

- The firm omitted required information from Item 5.2, *Audit-Related Memberships, Affiliations, or Similar Arrangements*, in its reports on Form 2. In these instances, the firm was non-compliant with PCAOB Rule 2200, *Annual Report*.

PART I.C: INDEPENDENCE

In the 2023 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.

4482 Barranca Parkway, Suite 239
Irvine, CA 92604, United States

YCM CPA INC.

August 19, 2024

Ms. Christine Gunia
Director - Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Response to the Draft Report on the 2023 Inspection of YCM CPA INC.

Dear Ms. Gunia,

We are pleased to submit our response to the Public Company Accounting Oversight Board's ("PCAOB") draft report dated July 18, 2024, on the 2023 inspection of two engagements of YCM CPA INC. ("we" or the "Firm"). We continue to support the PCAOB's goal of improving audit quality in order to protect investors and promote public trust through promoting informative, accurate, and independent audit reports.

We conducted a thorough evaluation of the matters identified in the draft report, including the involvement of an external consultant with over ten years of prior inspection experience with the PCAOB. Considering all the facts and circumstances related to certain findings, we believe the engagement team has obtained sufficient appropriate audit evidence. After careful analysis, we respectfully have conveyed our disagreements with the PCAOB's conclusions as outlined in Attachment 1 (public portion) and Attachment 2 (non-public portion).

Nevertheless, we remain dedicated to evaluating and improving our system of audit quality control, monitoring audit quality, and implementing changes to our policies and practices in order to enhance audit quality. We look forward to continuing working with the PCAOB regarding the most effective means of achieving these objectives.

Our firm continues to be steadfast in our dedication to making audit quality our top priority. We appreciate the PCAOB's inspection process, as it aids in enhancing our audit performance and improving our internal quality control systems, including monitoring compliance with independence rules.

Yours sincerely,

YCM CPA

YCM CPA, Inc.

FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Attachment 1 – Public Portion

Part I. A

Issuer A

<u>Revenue:</u>

The PCAOB draft report states that:

> *The firm's approach for testing one type of revenue included performing tests of details for a sample of transactions from one day during the year. The firm did not perform any procedures to test the population of transactions in the remaining days of the year. (AS 2315.24) In addition, the firm did not perform sufficient procedures to test the transaction price for the sample of transactions, because it limited its procedures to testing that the issuer received certain cash. (AS 2301.08 and .13)*
>
> *The firm's approach for testing a second type of revenue included performing tests of details for a sample of transactions. The firm identified differences in its testing for certain transactions. The firm did not (1) consider the nature and cause of the differences; (2) project the differences to the remaining revenue population; and (3) evaluate the results and take appropriate action. (AS 2315.26, .27, and .28)*
>
> *The firm did not perform any substantive procedures to test a third type of revenue. (AS 2301.08 and .13)*

We respectfully disagree that the Firm did not:

(a) perform any procedures to test the population of transactions in the remining days of the year, nor test the transaction price for the sample of transactions for the first type of revenue;

(b) consider the nature and cause of the differences, project the differences to the remaining population and take appropriate action for the second type of revenue;

(c) perform any substantive procedures to test the third type of revenue.

We note that the workpapers clearly and unequivocally documented that the engagement team performed the following procedures:

(a) The engagement team performed a walkthrough and obtained an understanding when a customer makes a purchase and swipes the medical insurance card or through digital payment platform, he/she agrees to the price of the product. Therefore, cash collection is considered as reliable evidence to test the revenue.

    In addition, the issuer's daily sales ledger reconciles to the cash receipts and recognizes revenue without any discrepancies. The engagement team expected the total revenue of the daily sales ledger selected would agree with the general ledger, as well as the cash receipts. We randomly selected one day from all 365 daily sales ledgers, with each day having an equal probability of being selected, and tested all 579 transactions within that day. We did not find any differences during testing; therefore, our expectation has been met.

(b) The engagement team performed testing on contracts, invoices, bank splits and delivery notices for this type of revenue. Our sample unit was a transaction during the year – not an invoice. There is no correlation between the invoice amount and the transaction amount, as the invoice could contain multiple transactions and/or partial transactions. Therefore, the invoice amount would not be expected to agree with the transaction amount, nor the bank deposit amount. Accordingly, variance between transaction amount, invoice amount, and bank deposit amount was not considered as audit difference. We considered the shipping documents to be relevant and reliable audit evidence to support revenue recognition.

Regarding some samples recognized prior to the shipping documents date, the engagement team evaluated the date difference and found the revenue was recognized within the correct reporting period. In addition, we performed cutoff testing on revenue near the year end without any cutoff issues.

(c) The engagement team also performed the sales reconciliation for this revenue stream. We traced the total revenue amount to the third-party shipping portal and each third-party sales platform. In addition, we tested four individual transactions in the walkthrough workpaper. Therefore, we believe that we obtained sufficient evidence necessary to reduce audit risk to an acceptably low level for this type of revenue.

Accordingly, we kindly request the PCAOB to reconsider these findings and exclude them in the final inspection report.

<u>Accounts Receivables:</u>

The PCAOB draft report states:

> *The firm did not perform procedures to test, or test controls over, the accuracy of certain data it used to develop its independent expectation. (AS 1105.10)*
>
> *The firm did not perform any procedures to demonstrate it had a reasonable basis for certain assumptions it developed and used in determining its independent expectation. (AS 2501.22)*
>
> *The firm did not compare its independent expectation to the issuer's recorded allowance for doubtful accounts and evaluate the difference. (AS 2501.26; AS 2810.13)*

We respectfully disagree that the Firm did not:

(a) perform procedures to test the accuracy of certain data used to develop its independent expectation;

(b) perform any procedures to demonstrate it had a reasonable basis for the assumptions used in determining its expectation;

(c) compare its independent expectation to the Issuer's recorded allowance and evaluate the difference.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

(a) The engagement team audited the balance sheet accounts as of March 31, 2022 and 2021 and ensured their accuracy by comparing all prior year historical data to the filed prior year audited annual reports. The engagement team also performed an aging test to ensure the accuracy of the aging categories used.

(b) The engagement team thoroughly reviewed the Issuer's estimate for the audit year, with particular emphasis on the reasonableness of the migration/roll rate method and its underlying assumptions. To develop an independent expectation, the engagement team utilized the aging method. The engagement team evaluated the impact of China's COVID policies in 2022, tested the collections related to government medical insurance balances to assess uncertainty in the collectability rate, and considered relevant economic conditions and indicators. Furthermore, the engagement team tested subsequent collections of the outstanding accounts receivable balance and performed ratio analysis. Based on these procedures, we believe the engagement team performed sufficient and appropriate audit work, obtaining comfort over the reasonable basis for the assumptions.

(c) The engagement team performed multiple analysis and compared all the results and methods at the end. The difference between the Issuer's estimate and our independent expectation was $0.1 million (below the tolerable misstatement of $0.7 million). Furthermore, we obtained an understanding of the Issuer's estimate of the audit year and assessed the risk of material misstatement; we agreed the bad debt allowance was reasonable and the difference in estimate was not considered a misstatement or departure from U.S. GAAP.

Accordingly, we kindly request the PCAOB to reconsider these findings and not include them in the inspection report.

<u>Cash and Cash Equivalents</u>

The PCAOB draft report states:

> *The firm sent positive confirmation requests for cash and cash equivalents balances and used an external party to receive the confirmation responses. The firm did not maintain control of the confirmation responses through direct communication with the intended recipients of the confirmation requests. (AS 2310.28)*

We respectfully disagree that the firm did not maintain control of the confirmation responses.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

(a) Cash confirmations were addressed to us, and we collected the mail from the external party in sealed, unopened condition. The external party did not perform any audit procedures during this confirmation process nor any other procedures during the audit.

(b) In addition, the engagement team performed the following procedures, among others:

- We compared the balances to the bank statements, which were obtained by observing the Issuer logging into its online banking system and exporting the statements. We verified the authenticity of the online banking websites, ensuring that the bank statements were sourced from knowledgeable third parties, confirming their reliability and their ability to provide relevant and sufficient information to the engagement team.
- We randomly selected several transactions from the bank statements for each account and traced them back to the general ledger for verification.

Accordingly, we kindly request the PCAOB to reconsider these findings and not include them in the inspection report.

<u>Journal Entries</u>

The PCAOB draft report states:

> *The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient substantive procedures to test those journal entries, because it limited its procedures to certain journal entries without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)*

We respectfully disagree that the Firm did not perform substantive sufficient procedures to test journal entries without having an appropriate rationale for limiting its testing.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

(a) The engagement team performed audit work on 20 journal entries that met the established criteria and had amounts below the clearly trivial threshold; the remaining journal entries in the excluded population, both individually and in aggregate, did not exceed tolerable error (performance materiality).

(b) The original source used for selection was not retained in the binder due to the large size of the file. During the inspection, we demonstrated that population in the original source did not exceed performance materiality.

Accordingly, we kindly request the PCAOB to reconsider these findings and not include them in the inspection report.

Issuer B

Revenue:

The PCAOB draft report states that:

> *The firm did not perform procedures to test, or test controls over, the accuracy* **** **** *of certain system-generated data that it used to test certain revenue. (AS 1105.10)*

We respectfully disagree that the Firm did not perform procedures to test the accuracy **** **** of certain system-generated data.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

****Redacted. Confidential Treatment Request Granted by the Board Pursuant to PCAOB Rule 4007(b)

**** The engagement team carefully evaluated the reliability of the information produced by the Issuer's system by vouching the shipping address and shipping date to the shipping document and payment time and the payment method and payment amount to the bank's portal for each selected transaction. The engagement team did not find any exceptions for any selected transactions, so we believe this evidence was accurate and reliable.

Accordingly, we kindly request the PCAOB to reconsider these findings and not include them in the inspection report.

Journal Entries

The PCAOB draft report states that:

> *The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient substantive procedures to test those journal entries, because it limited its procedures to certain journal entries without having an appropriate rationale for limiting its testing to those journal entries. (AS 2401.61)*

We respectfully disagree that the Firm did not perform sufficient substantive procedures to test journal entries without having an appropriate rationale for limiting its testing.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

(a) The engagement team identified and performed audit work on four journal entries that met the established criteria and had amounts below the clearly trivial threshold; the remaining journal entries in the excluded population, both individually and in aggregate, did not exceed the clearly trivial threshold.

(b) The original source used for selection was not retained in the binder due to the large size of the file. During the inspection, we demonstrated that population in the original source did not exceed clearly trivial threshold.

Accordingly, we kindly request the PCAOB to reconsider these findings and not include them in the inspection report.

Part I. B

A. The PCAOB draft report states:

In two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not perform sufficient procedures to determine whether the journal entry population from which it made its selections was complete. In these instances, the firm was non-compliant with AS 1105, Audit Evidence.

We respectfully disagree that the Firm did not perform sufficient procedures to determine whether the journal entry population from which it made selections was complete.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

- The engagement team obtained the journal entry list by observing the Issuers' accountant logging into the accounting system and exporting the data.
- We compared the beginning and ending balances to the trial balances (tie-outs).

B. The PCAOB draft report states:

In one audit reviewed, the firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures. In this instance, the firm was non-compliant with AS 1301, Communications with Audit Committees.

We respectfully disagree that the Firm did not communicate to the audit committee all of the significant risks identified through its risk assessment procedures.

We note that the workpapers clearly and unequivocally document that the engagement team performed the following procedures:

- Cash, inventory, long-term investments, and income taxes were not deemed to be significant risks and were documented as such in the assertion level risk assessment in the risk assessment summary form. Our cash procedures were designed and performed in a manner that addressed our assessed moderate risks of material misstatement. Cash confirmations were obtained from knowledgeable third-party sources and sufficiently supported the existence of the cash. Inventory did not have a reserve during the audit period, which did not involve significant risks and uncertainties of the management's estimate. During the audit period, the nature and investment activities of the long-term investments remained the same, and there has been no change to the accounting method since the prior year. The Issuer experienced no significant penalties nor uncertain tax provisions during the audit period. However, these accounts were erroneously marked as significant at the account level of the risk assessment summary form. The engagement has corrected the error in the risk assessment form in the subsequent audit period.

C. The PCAOB draft report states:

In two audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria it used to identify and select journal entries for testing. In these instances, the firm was non-compliant with AS 2401, Consideration of Fraud in a Financial Statement of Audit.

We respectfully disagree that the Firm did not appropriately consider the characteristics of potentially fraudulent journal entries in determining the criteria for testing.

The criteria used were carefully designed to capture a broad spectrum of risk factors associated with fraud based on sample criteria listed in AS 2401.61. The selection process considered various indicators, such as unusual timing, large or round-dollar amounts, and atypical transactions, which are commonly associated with fraudulent activities. Using our cumulative audit knowledge gained throughout our work with the Issuers, we exercised our professional judgement to determine the nature and extent of journal entries testing as required under AS 2401. The approach ensured that we were well-positioned to identify and test journal entries that could indicate misstatement due to fraud.

D. The PCAOB draft report states:

In one audit 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, or required to be 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.

We respectfully disagree that the Firm did not include certain matters communicated to the audit committee to determine whether or not those were critical audit matters.

The engagement team did evaluate certain matters disclosed as significant accounting policies in the Issuer's annual report and did not consider them to involve challenging, subjective, or complex audit judgement. Because the nature of those "certain" matters were self-explanatory and not challenging, subjective, or complex, we did not document them in the critical audit matters worksheet.

E. The PCAOB draft report states:

> *In one audit, the firm's communication of a critical audit matter in the audit report included language that was inconsistent with information in the firm's audit documentation. 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.*

We respectfully disagree that the critical audit matter in the audit report included language that was inconsistent with information in the Firm's audit documentation.

We accurately described how the critical audit matter was addressed in our audit. The engagement team assessed the historical accuracy of management's estimates and evaluated management's sensitivity assessment of the subjective assumptions to evaluate the changes in the analysis that would result from changes in these assumptions. During the inspection, we demonstrated that the language in the audit report was consistent with the procedures performed in our workpapers.

F. The PCAOB draft report states:

> *The firm omitted required information from Item 5.2, Audit-related Memberships, Affiliations, or Similar Arrangements, in its report on Form 2. In these instances, the firm was non-compliant with PCAOB Rule 2200, Annual Report.*

We respectfully disagree that information of audit-related memberships, affiliations, or similar arrangements were omitted on Form 2.

The entity in question here is a wholly owned subsidiary of our firm that is considered to be the firm's other office and was so reported in Form 2 in accordance with PCAOB Rule 2200. Furthermore, we note that this subsidiary (other office) does not qualify as an "independent public accounting firm" in accordance with AS 1301.10 (d) because all auditors who performed audit work for these engagements were directly employed by our headquarters and, therefore, do not fall under the category of "other persons, who are not employed by the auditor" as outlined in AS 1301.10 (d). Accordingly, we reaffirm that our firm does not have any audit-related memberships, affiliations, or similar arrangements with any accounting firms that would be required to be included in Item 5.2 of Form 2.