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# 2024 Inspection

## BDO China Shu Lun Pan

### Certified Public Accountants LLP

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

April 28, 2025

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002



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## 2024 INSPECTION

In the 2024 inspection of BDO China Shu Lun Pan Certified Public Accountants 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 three audits of issuers with fiscal years ending in 2023. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

### 2024 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 2024 INSPECTION

The following information provides an overview of our 2024 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

	2024
<b>Firm data</b>	
Total issuer audit clients in which the firm was the principal auditor	2
Total issuer audits in which the firm was not the principal auditor	2
Total engagement partners on issuer audit work <sup>1</sup>	2
<b>Audits reviewed</b>	
Total audits reviewed <sup>2</sup>	3
Audits in which the firm was the principal auditor	2
Audits in which the firm was not the principal auditor	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	1
Audits with Part I.A deficiencies	2
Percentage of audits with Part I.A deficiencies	67%

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 2024 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.

2024	
Audit area	Audits reviewed
Revenue and related accounts	3
Cash and cash equivalents	3
Inventory	3

## 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 supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR.

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 – Information Technology

#### Type of audit and related area affected

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

#### Description of the deficiencies identified

The issuer used multiple information-technology (IT) systems to initiate, process, and record inventory and inventory-related transactions. The firm relied on controls it selected for testing in its approach to testing inventory. In its testing of controls over inventory, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As

a result of the following deficiencies in the firm's testing of IT general controls (ITGCs) over certain of these IT systems, the firm's testing of these automated and IT-dependent controls was not sufficient. (AS 2301.18)

- The firm selected for testing certain controls over change management and user access but did not perform procedures to test, or test any controls over, the completeness of the population of items from which it made its selections for testing. (AS 1105.10)
- The firm selected for testing a control that consisted of the issuer's periodic review of user access to one of its IT systems. The firm, however, did not perform procedures to test the design and operating effectiveness of this control. (AS 2301.19 and .21)
- The firm selected for testing a control over the authorization and restriction of privileged access to one of its systems. The firm did not perform sufficient procedures to test this control because it limited its procedures to testing that one type of privileged access was restricted at a point in time during the year. (AS 2301.16 and .21)
- For one of its IT systems, the firm identified control deficiencies related to (1) developers having inappropriate access to the production environment and (2) the lack of monitoring of user activity. The firm did not evaluate the severity of these deficiencies and the effect on its control risk assessments. (AS 2301.34)

The firm selected for testing certain controls that consisted of the issuer's review of the costs at which inventory is recorded. For these controls, the firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow up and the procedures to determine whether those items were appropriately resolved. (AS 2301.19 and .21)

The sample sizes the firm used in certain of its substantive procedures to test inventory costs 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)

For certain inventory, the firm did not perform any procedures to test, or as discussed above, sufficiently test controls over, the accuracy and completeness of an inventory aging report generated from the one of the issuer's IT systems it used to test the issuer's obsolete inventory reserve. (AS 1105.10)

## Issuer B – Consumer Discretionary

### Type of audit and related area affected

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



## Description of the deficiencies identified

The firm became aware, through discussions with the issuer's audit committee and a review of whistleblower program records, of two incidents involving the improper authorization of lease agreements by a manager acting on behalf of the issuer. The firm did not take sufficient action in response to these possible illegal acts because (1) it limited its procedures to inquiry and reading the issuer's whistleblower reporting summary and (2) it did not evaluate the effect on the financial statements as well as consider the implications for other aspects of the audit. (AS 2405.10 and .12) In addition, the firm did not evaluate the effect of these possible illegal acts on the effectiveness of the issuer's internal control over financial reporting. (AS 2201.B8)

## 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) 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 three audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not (1) perform procedures to evaluate the reliability of journal entries identified by an external software audit tool that met the firm's fraud criteria and (2) 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 of two audits reviewed, the firm did not make a required communication to the audit committee related to uncorrected misstatements. In addition, in this audit, the firm inappropriately communicated to the audit committee that none of the uncorrected misstatements could potentially cause future-period financial statements to be materially misstated. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of three 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 this instance, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

## PART I.C: INDEPENDENCE

In the 2024 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.



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March 5, 2025

Ms. Christine Gunia  
Director  
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Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, DC 20006

Re: Response to Part I of the Draft Report on the 2024 Inspection of BDO China Shu Lun Pan Certified Public Accountants LLP (PUBLIC)

Dear Ms. Gunia:

On behalf of BDO China Shu Lun Pan Certified Public Accountants LLP (the "Firm"), we are pleased to provide our response to Part I of the Public Company Accounting Oversight Board's ("PCAOB" or the "Board") Draft Report on the 2024 Inspection of the Firm. The Board's inspection process plays an integral role in enhancing audit quality. We continue to support the PCAOB's mission of protecting investors and furthering the public interest in the preparation of informative, accurate, and independent audit reports.

We have evaluated each of the observations set forth in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards and our policies. Our evaluation included those steps we considered necessary to comply with AS 2901, *Consideration of Omitted Procedures After the Report Date*, and where applicable, AS 2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. Our evaluation of all the observations did not result in any change to our audit reports.

We recognize the important role we play in protecting the interest of investors and the integrity of the capital markets and are therefore steadfast in our commitment to audit quality as our highest priority. To drive continuous improvement, we are investing in advanced audit technologies, enhancing our training programs, and rigorously monitoring compliance with our quality control system.

The PCAOB's inspection process, including dialogue with the staff, assists us in improving our audit performance, our underlying quality control system, and ultimately the reliability of financial reporting. We look forward to continuing our dialogue with the PCAOB and its staff and would be pleased to address any questions you may have.

Yours sincerely,

Zhiguo Yang  
CEO  
BDO China Shu Lun Pan Certified Public Accountants LLP

