PCAOB

The three KPMG Huazhen partners were docked a total of $150,000 for turning a blind eye to U.S. auditing standards.

Jason Bramwell • Mar. 21, 2024

The Public Company Accounting Oversight Board (PCAOB) doled out a total of $150,000 in fines to three partners at KPMG in China for turning a blind eye to U.S. auditing standards.

KPMG Huazhen partner Choi Chung Chuen was docked $75,000, Ma Hong Chao has to pay $50,000, and Dong Chang Ling was fined $25,000 as part of the settlement with the U.S. audit regulator.

The PCAOB found that Choi, Ma, and Dong violated PCAOB standards in connection with KPMG Huazhen's audit of the 2017 financial statements of Tarena

International, a mainland China-based education service provider listed in the U.S.

Tarena's IT controls, Choi and Ma improperly continued to rely on those controls to support their audit conclusions as if those controls were reliable.

The PCAOB also discovered that Choi and Ma failed to exercise due care and professional skepticism and failed to obtain sufficient appropriate audit evidence to support Tarena's net accounts receivable. Specifically, they didn't appropriately evaluate the reasonableness of Tarena's allowance for doubtful accounts. Choi and Ma also didn't obtain an adequate understanding of how management developed the estimate, didn't appropriately evaluate its reasonableness, and didn't adequately consider evidence indicating that the estimate might not be reasonable.

Finally, the PCAOB found that Dong, the partner with overall responsibility for the involvement of the firm's IT professionals in the Tarena audit, failed to sufficiently supervise those IT professionals. As a result, Dong failed to identify several deficiencies in the IT audit procedures, according to the PCAOB.

"The failures uncovered by this investigation highlight how important the Board's global reach over international firms and their associated persons is to fulfilling its investor protection mission," Robert Rice, director of the PCAOB's Division of Enforcement and Investigations, said in a statement.

In addition to the fines, the KPMG Huazhen partners, without admitting or denying the findings, consented to the PCAOB disciplinary order which:

- Censures each partner;
- Bars Choi and Ma from being associated persons of a registered public accounting firm with a right to petition the PCAOB for consent to associate with a registered public accounting firm after one year;
- Limits Dong from acting in certain roles on issuer audits for a one-year period;

- Requires Choi and Ma to complete continuing professional education before filing

"The PCAOB will take action to protect investors in U.S. markets and hold accountable anyone who violates PCAOB rules and standards, no matter where they are located," PCAOB Chair Erica Williams said.

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