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PCAOB Sanctions Three Partners of KPMG China for Violations of Audit Standards

PCAOB imposes \$150,000 in fines, bars two partners, and imposes practice limitation on partner with responsibility for IT audit personnel

Washington, DC, Mar. 20, 2024

The Public Company Accounting Oversight Board (PCAOB) today announced a **settled disciplinary order** sanctioning CHOI Chung Chuen (“Choi”), MA Hong Chao (“Ma”), and DONG Chang Ling (“Dong”) (collectively, “Respondents”), partners of mainland China-based KPMG Huazhen LLP (the “Firm”), for violations of PCAOB standards.

The enforcement settlement announced today is the PCAOB’s fourth settled disciplinary order against China- or Hong Kong-based firms or individuals attributable to the historic access the PCAOB secured to inspect and investigate firms headquartered in China and Hong Kong in 2022.

“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,” said PCAOB Chair Erica Y. Williams.

The PCAOB found that each of the Respondents violated PCAOB standards in connection with the Firm’s audit of the 2017 financial statements of Tarena International, Inc. (n/k/a TCTM Kids IT Education Inc.) (“Tarena”), a mainland China-based education service provider listed in the United States. In 2019, Tarena restated its 2017 financial statements for, among other things, intentional revenue inflation and improper charges against accounts receivable.

Specifically, the PCAOB found that Choi and Ma, the engagement partner and a second partner on the 2017 audit, respectively, failed to obtain sufficient appropriate audit evidence to support Tarena’s reported revenue. In evaluating Tarena’s revenue, Choi and

Ma planned to rely on the company's internal controls, including information technology-related controls ("IT Controls"). However, after learning of numerous unremediated deficiencies in Tarena's IT Controls, Choi and Ma improperly continued to rely on those controls to support their audit conclusions as if those controls were effective.

The PCAOB also found 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 did not appropriately evaluate the reasonableness of Tarena's allowance for doubtful accounts. Choi and Ma did not obtain an adequate understanding of how management developed the estimate, did not appropriately evaluate its reasonableness, and did not 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.

"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," said Robert E. Rice, Director of the PCAOB's Division of Enforcement and Investigations.

Without admitting or denying the findings, the Respondents consented to the PCAOB's order, which:

- Censures the Respondents;
- Imposes civil money penalties in the amounts of \$75,000 on Choi, \$50,000 on Ma, and \$25,000 on Dong;
- Bars Choi and Ma from being associated persons of a registered public accounting firm with a right to petition the Board 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 that Choi and Ma each complete continuing professional education before filing any petition for Board consent to associate with a registered public accounting firm; and
- Requires that Dong complete additional continuing professional education over the next year.

PCAOB enforcement staff members Elliott Mogul, Tony Chen, R. Davis Taylor, and Sherry Tao conducted the investigation, supervised by William Ryan and John Abell.

The PCAOB oversees auditors' compliance with the Sarbanes-Oxley Act, provisions of the securities laws relating to auditing, professional standards, and PCAOB and SEC rules.

Further information about the PCAOB Division of Enforcement and Investigations is **available on the PCAOB website**. Firms or individuals wishing to report suspected misconduct by auditors, or to self-report possible misconduct, may visit the PCAOB **Tips and Referrals page**.

About the PCAOB

The PCAOB is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of brokers and dealers registered with the Securities and Exchange Commission, including compliance reports filed pursuant to federal securities laws.

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