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PCAOB Sanctions Two Registered Public Accounting Firms for Improper Use of Unregistered Firms

Washington, Apr. 19, 2022

The Public Company Accounting Oversight Board (PCAOB) today announced that it has imposed monetary penalties and other sanctions in separate, unrelated matters involving: (1) **WWC, P.C.** and (2) **JLKZ CPA LLP, along with JLKZ's managing partner**. These matters involve violations of the Sarbanes-Oxley Act and PCAOB rules and standards in connection with the use of unregistered accounting firms in conducting issuer audits.

“To protect investors, the PCAOB has clear and important rules that require accounting firms to register with the Board before playing a substantial role in audits of public companies,” said PCAOB Chair Erica Y. Williams. “When firms that issue audit reports fail to ensure that their use and supervision of unregistered accounting firms complies with the law, we will hold them accountable.”

WWC Matter

The WWC matter is the first in which the PCAOB has imposed sanctions for a failure reasonably to supervise an unregistered firm.

WWC used audit work performed by its unregistered Hong Kong affiliate in ten issuer audits. During these audits, WWC allowed the unregistered affiliate to exceed the level of participation requiring registration with the Board and thereby failed reasonably to supervise the Hong Kong firm in a manner designed to prevent violations of the Sarbanes-Oxley Act and PCAOB rules. Specifically, WWC took no steps to ensure that the unregistered affiliate’s participation would be consistent with PCAOB registration requirements. Accordingly, the Board found, among other violations, that WWC failed reasonably to supervise its unregistered affiliate.

The Board censured WWC, imposed a \$50,000 civil money penalty on the firm, and ordered the firm to take steps to improve its quality control policies and procedures.

JLKZ Matter

The JLKZ matter is the first in which the PCAOB has imposed sanctions against a firm for issuing an audit report where a separate, unregistered firm had conducted the underlying audit.

Under an arrangement with an unregistered Chinese firm, JLKZ issued audit reports for two issuers after personnel of the unregistered firm acted as the engagement partner, audit staff, and engagement quality reviewer for the audits. The unregistered firm received most of the audit fees. The Board found that JLKZ violated PCAOB standards (**AS 3101**) by issuing audit reports where it had not conducted the underlying audits. The Board also found that JLKZ managing partner Jimmy P. Lee, CPA, directly and substantially contributed to the firm's violations.

The Board imposed a total civil money penalty of \$50,000 jointly and severally on JLKZ and Lee, censured them, and restricted for two years JLKZ's ability to accept new issuer or broker-dealer audit engagements.

"When registered firms fail to appropriately use or supervise work performed by unregistered firms, that undermines investor protection," said Patrick Bryan, Director of the PCAOB's Division of Enforcement and Investigations. "I thank our enforcement staff for their diligent work on these matters, which will deter future misconduct in this area."

PCAOB enforcement staff members Michelle W. Jaconski, Stephen M. D'Angelo, and Samuel C. McCoubrey conducted the investigations, with supervision by Raymond J. Hamm and C. Ian Anderson.

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, including compliance reports filed pursuant to federal securities laws.

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PCAOB Office of External Affairs

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