

**Inspection of  
Zhong Yi (Hong Kong) C.P.A. Company Limited  
(Headquartered in Hong Kong Special Administrative Region,  
People's Republic of China)**

**Issued by the  
Public Company Accounting Oversight Board**

**February 25, 2010**

**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**



### **Notes Concerning this Report**

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

## **INSPECTION OF ZHONG YI (HONG KONG) C.P.A. COMPANY LIMITED**

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Zhong Yi (Hong Kong) C.P.A. Company Limited ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.<sup>1/</sup>

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.<sup>2/</sup> A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

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<sup>1/</sup> 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 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 at all. 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.

<sup>2/</sup> See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

## **PART I**

### **INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS**

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from October 13, 2008 to October 17, 2008. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Hong Kong Special Administrative Region, People's Republic of China)
Ownership structure	Limited liability corporation
Number of partners	1
Number of professional staff <sup>3/</sup>	19
Number of issuer audit clients <sup>4/</sup>	11

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<sup>3/</sup> "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

<sup>4/</sup> The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.<sup>5/</sup> To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.<sup>6/</sup> It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

#### A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.<sup>7/</sup> The deficiencies identified in one of the audits reviewed included deficiencies of such

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<sup>5/</sup> This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

<sup>6/</sup> When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

<sup>7/</sup> PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of*

significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.<sup>8/</sup> Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning revenue recognition;
- (2) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning the issuer's accounting for the disposal of a subsidiary subsequent to year end;
- (3) the failure to perform sufficient audit procedures to test the existence and valuation of certain assets held for sale;
- (4) the failure to evaluate the issuer's ability to continue as a going concern;
- (5) the failure to assess the effect of significant fraud risk indicators and appropriately modify audit procedures in response to such fraud risk factors; and

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*Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

<sup>8/</sup> In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

(6) the failure to perform sufficient audit procedures to test the existence of cash balances.

**B. Review of Quality Control System**

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I



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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED  
FROM THIS PUBLIC DOCUMENT



## PART II

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### B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.<sup>9/</sup> On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

\* \* \* \*

#### 2. Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects \* \* \*

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#### Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

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<sup>9/</sup> A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

## **PART IV**

### **RESPONSE OF THE FIRM TO 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, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.<sup>10/</sup>

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<sup>10/</sup> In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

ZHONG YI (HONG KONG) C.P.A. COMPANY LIMITED  
中逸(香港)會計師事務所有限公司



Mr. George Diacont  
Director  
Division of Registration and Inspections  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington DC 20006-2803

December 31, 2009

**Public Response to Part I of the Report on 2008 Inspection of Zhong Yi (Hong Kong)  
C.P.A. Company Limited**

Dear Mr. Diacont

We are pleased to provide our response to the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") regarding the Report on 2008 Inspection of Zhong Yi (Hong Kong) C.P.A. Company Limited (the "Report"). We understand that the inspection process is a fundamental component of the PCAOB's mission.

Our fundamental objective is to make sure that all aspects of our auditing and quality control processes are of the highest quality for the continued benefit of the participants in the capital market. The PCAOB's inspections assist us in identifying areas where we can continue to improve our performance.

We recognize the constructive intent of the inspection process and therefore we made every effort to cooperate with the inspection staff. Therefore, we thoroughly evaluated the matters described in Part 1- *Inspection Procedures and Certain Observations* of the Report and we have considered whether it was necessary to perform additional auditing procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date*. We have taken actions where appropriate in accordance with our firm's internal policies and PCAOB standards.

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We appreciate that the Inspection Team did not have comment on one issuer of the two issuers selected for inspections.

Of the Issuer A on which the Board has commented, despite the fact that Issuer A is no longer our client, we have performed certain additional procedures and improved aspects of our audit documentation in response to performance of those procedures. In certain cases, the procedures had been performed, but not adequately documented, prior to the issuance of the audit report. Our additional procedures, in these cases, involved including documentation as part of the working papers for the audit.

We have performed these procedures in accordance with PCAOB standards that require the firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions (AU 390).

In no instance have these procedures changed our original audit conclusions or affected our reports on the issuer's financial statements nor do we expect any additional procedures that are yet to be performed to result in changes to our conclusions and reports. We will promptly inform you the findings if our assessment changes at the completion of these procedures

As a result of these additional audit procedures performed, no new facts have come to our attention that caused us to believe that our previously issued auditor's report should have been withdrawn or that our work, as originally documented and performed, was inconsistent with the conclusions reached.

In preparation for our 2009 year end audits, we have issued guidance relating to the areas raised in the Report to our engagement teams in order to specifically address the concerns raised and in particular, as to the requirements of further and better documenting our procedures and conclusions. In addition, we have provided additional in-house training sessions dedicated to addressing the areas of deficiency noted in the Report.

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We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our public company audit practice. We also wish to express our appreciation to the Inspection Team for the professional manner and demeanor in which it performed during the Inspection. We believe that future inspections will continue to enhance our audit quality and strengthen the accounting profession.

Respectfully submitted,

*ZY (HK) CPA Co Ltd.*

Mr. Johnny Tang

Director

Zhong Yi (Hong Kong) C.P.A. Company Limited

ZHONG YI (HONG KONG) C.P.A. COMPANY LIMITED  
中逸(香港)會計師事務所有限公司



Mr. George Diacont  
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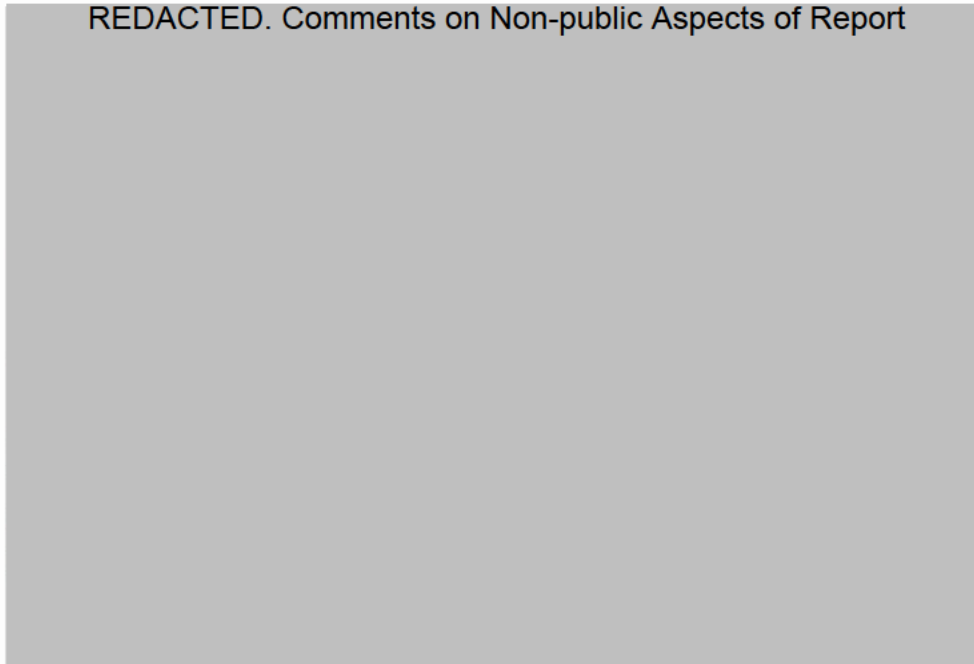
December 31, 2009

**Nonpublic Response to Part II and Part III of the Report on 2008 Inspection of Zhong Yi  
(Hong Kong) C.P.A. Company Limited**

Dear Mr. Diacont

We are pleased to provide our response to the Public Company Accounting Oversight Board (the "Board" or the "PCAOB") regarding the Report on 2008 Inspection of Zhong Yi (Hong Kong) C.P.A. Company Limited (the "Report").

**REDACTED. Comments on Non-public Aspects of Report**



## **II B. Issues Related to Quality Control**

REDACTED. Comments on Non-public Aspects of Report

### **II B. 2. Audit Performance**

#### **Technical Competence, Due Care, and Professional Skepticism**

Our response:

We disagree with your overall comment that we “....not to do enough to ensure technical competence and the existence of due care or professional skepticism”. The ground for our disagreement were that out of the 2 issuers selected by the Inspection Team, no comment for

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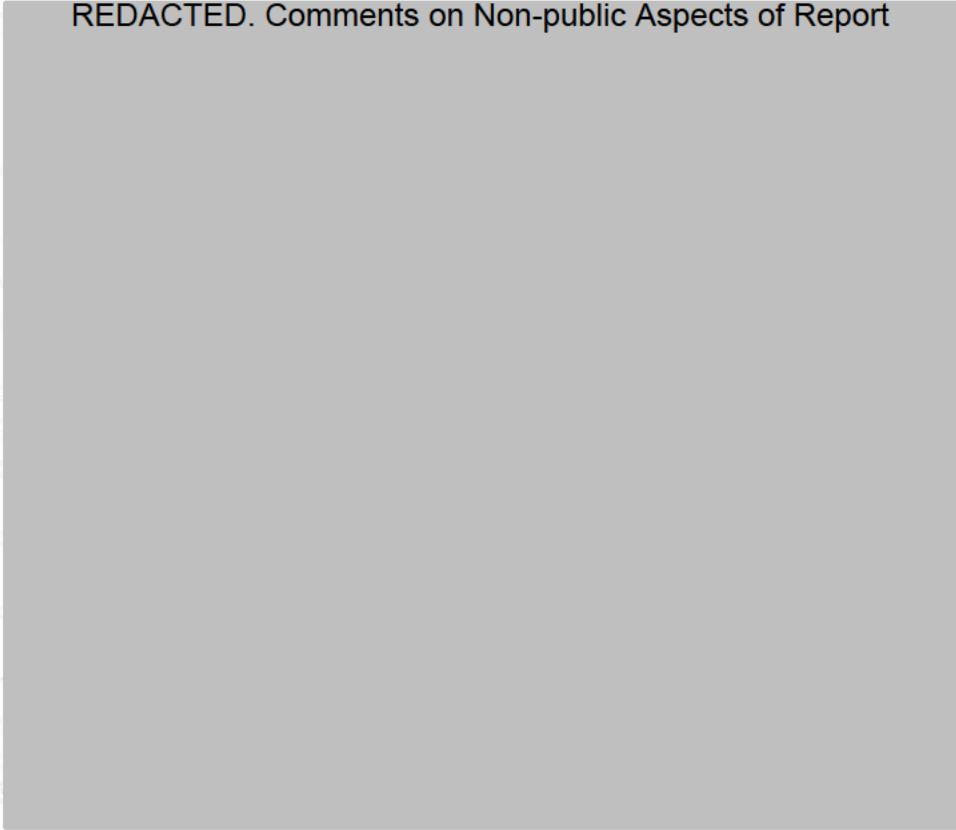
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one issuer which means that the control deficiencies identified for Issuer A was a “engagement control deficiencies” rather than a “firm overall control deficiencies”.

However, we appreciate the Board’s comment and we admit that we can further improve the quality control by enhancing the role of concurring reviewer and their involvement in the engagements’ quality control and the firm’s quality control. We have now established business relationship with two more independent accounting firms” Demetrius & Company, LLC and Berenfeld Spritzer Shechter & Sheer LLP, to be our independent concurring reviewer to off-load some of the work of our existing concurring reviewer.

**REDACTED. Comments on Non-public Aspects of Report**





## REDACTED. Comments on Non-public Aspects of Report

We hereby request the Board to consider our response above, and revise the Inspection Report as the Board deem appropriate. Should you request further information, please feel free to contact me at (phone) 852-25732296 or (email) [johnny@zy-cpa.com](mailto:johnny@zy-cpa.com).

Respectfully submitted,

*ZY (HK) CPA Co Ltd.*

Mr. Johnny Tang

Director

Zhong Yi (Hong Kong) C.P.A. Company Limited