

**Inspection of
Samuel H. Wong & Co., LLP
(Headquartered in San Mateo, California)**

**Issued by the
Public Company Accounting Oversight Board
September 23, 2011**

**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 SAMUEL H. WONG & CO., LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Samuel H. Wong & Co., LLP ("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.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} 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.

^{1/} 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.

^{2/} 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 April 12, 2010 to April 16, 2010. 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 (South San Francisco, California) ^{3/}
Ownership structure	Limited liability partnership
Number of partners	4
Number of professional staff ^{4/}	5
Number of issuer audit clients ^{5/}	7

^{3/} Subsequent to the outset of the inspection, the Firm moved its office location from South San Francisco, California to San Mateo, California.

^{4/} "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.

^{5/} 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.^{6/} 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.^{7/} 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 three 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.^{8/} The deficiencies identified in one of the audits reviewed included deficiencies of such

^{6/} 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.

^{7/} 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.

^{8/} 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*

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.^{9/} Those deficiencies were –

- (1) the failure to perform sufficient procedures to test contract revenues; and
- (2) the failure to perform sufficient procedures to test accounts receivable.

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

of Omitted Procedures After the Report Date, and AU 561, Subsequent Discovery of 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.

^{9/} 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.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

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.^{10/}

^{10/} 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.



SAMUEL H. WONG & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

Mr. George Botic
Deputy Director
Small Firm Program
Public Company Accounting Oversight Board
Division of Registration and Inspections
1666 K Street, N.W.
Washington, DC 20006

August 10, 2011

Re: Response to Draft Inspection Report

Dear Mr. Botic,

This letter is our response to your Draft Inspection Report of July 14, 2011. We thank the Board for providing a draft inspection report to us so that we may make improvements to our Firm based on the Board's evaluation and criticism regarding our quality control system.

Response Addressing the Public Portion

A. Insufficiently Supported Audit Opinion

Issuer A:

1) Contract Revenues

We respectfully disagree with the Board's belief that there was a lack of sufficient evidential matter to support our opinion that Issuer A's contract revenues were fairly stated. We believe that the Board should further review the circumstances and evidence related to this particular audit. First and foremost, we would like to note the time frame regarding the audit of Issuer A. The date of releasing our report regarding Issuer A was March 2, 2010. The time period of the inspection was from April 12, 2010 through April 16, 2010. The time allotted under *PCAOB Auditing Standard No. 3 Audit Documentation* to finalize our audit work papers was up to and through April 16, 2010. Potentially, there were work papers that the inspection team did not fully consider because we may have been still assembling certain work papers in the last days leading up to the audit documentation finalization deadline while the inspection

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was already in the midst of conducting their inspection. We assume that we should be afforded the full amount of time to finalize our documentation in accordance to the standards.

In the following, we summarize our audit of Issuer A, and point out that there is the possibility that the inspection team may have overlooked the persuasive evidential matter gathered in our audit, given the circumstances mentioned above. Please note, our audit of Issuer A required the use of a customized audit program. In developing our customized audit program, we first considered industry specific accounting policies and guidelines; Issuer A's primary business activities were the design and installation of curtain walls which are specialized crafts within the construction industry. Also, we were cognizant to the fact that a majority of Issuer A's operations and finance functions were located in China. After thorough consideration of the foregoing circumstances of Issuer A, we exercised judgment in developing appropriate audit procedures and determining what we considered persuasive evidential matter. We then proceeded to carry out the initial phases of our audit which started with studying Issuer A's entire project bidding and budgeting process enabling us to determine the reasonableness of the budgeted cost as seen in Exhibit B. We found that historically, Issuer A's estimated budgets tended to be reasonable, and variances from budgets were within acceptable ranges. It can be seen in Exhibits A and C that we carried out procedures to test the estimates of Issuer A. In hindsight, we believe that any variances larger than historical rates were the result of the unforeseen global economic downturn. We believe the general state of the global economy has positive correlations with capital projects such as building construction; while building projects do not completely stop during recessions, there is a tendency for the progress of construction projects to slowdown, which bares the negative consequence of increasing costs for vendors, as was the case for Issuer A. After consideration of the Issuer A's project budgets, we inspected sales contracts and reconciled those to the job accounting performed by the finance department as seen in Exhibits A and E. We vouched contract revenue recognition to both job progress reports and cash receipts also seen in Exhibit E. We vouched actual costs incurred, comprised of materials, labor, and expenses, to their related to jobs, as seen in Exhibits A and C. We also tested for variances by comparing estimated gross profit, the control figure, against actual gross profits. If variance existed, we would investigate the rationale, and then determine if there was any impact to revenue recognition, and recommend adjustments as necessary. We also recalculated the percentage of completion to test for arithmetic accuracy.

The Board has repeatedly noted there is a need for corroborating persuasive evidence critical to forming, and supporting the audit opinion. We believe that the draft inspection report neither mentioned, nor did the inspection team fully consider the industry practices in Issuer A's locality when it made its criticism. A review of the working papers and evidence shows that there is a significant reliance placed by Issuer A and our Firm on customer acceptance as to corroborate the recognition of revenue. We have included in Exhibit E copies of such evidential matter. While we believe that as auditors that emphasis on the substantiation of actual costs incurred and estimated budgets because of the use of the percentage of completion method to recognize revenue for the given industry of Issuer A is important; however, when dealing with compliance with SEC regulations under guidance provided by Staff Accounting Bulletins, persuasive evidence of delivery and performance are absolutely necessary. Accordingly, customer acceptance, as seen in the Exhibit E can be construed as superior evidence that corroborates that the Issuer has completed the earnings process. Issuer A in most instances acts as a subcontractor in most construction projects in which it partakes. In China, the general contractor is afforded the right to cease the premises of a construction project if its fees are unpaid. Such a right is not given to subcontractors; therefore, under such circumstances, customer acceptance of work performed becomes critical to the recognition of

revenue. Revenue recognition based solely on costs incurred and estimated costs to complete do not provide enough persuasive evidence that the criteria of collectability is reasonably assured; accordingly, we reiterate the necessary reliance that we and Issuer A place on customer acceptance.

2) Accounts Receivable

We respectfully disagree with the Board. We believe we have performed sufficient procedures and gathered sufficient evidential matter to render an opinion on whether Issuer A accounts receivable balance at December 31, 2009 was fairly stated. We would like to reiterate that the time frame of our inspection and the time afforded under *PCAOB Auditing Standard No. 3 Audit Documentation* may have potentially caused certain work papers to be over looked in regards to the inspection of the audit documentation of Issuer A.

Our audit procedures to test the existence and valuation of accounts receivable of the subsidiary of Issuer A at December 31, 2009 included the following audit procedures: sending of positive confirmations, sending negative confirmations, and performance of other audit procedures. Our audit procedures began with the selection of 51 balances from Issuer A's customers that represented 80% of the accounts receivable balance for that particular subsidiary of Issuer A. After selecting that sample of balances we sent confirmations to all 51 customers. Nine customers responded back to the confirmations. There were two instances where there were two discrepancies found in the confirmations for which we received responses. We worked with Issuer A to clarify and resolve the discrepancies. The two discrepancies stem from tardiness by the Issuer A's customer in recognizing costs for services performed by Issuer A. In both instances, the discrepancies were resolved, and the outstanding amounts were subsequently recognized by the Issuer A's customers.

Of the 42 customers whom did not respond to confirmations of balances, we sent negative confirmations and performed alternative procedures to substantiate the accounts receivable balances. Our alternative procedures focused on two aspects: the first aspect was the customer acceptance found on job progress reports which show customer acknowledgement of services performed and fees owed; the second aspect was to trace the creation of customer account balances via the earning cycle from contract initiation to delivery of services. This entire cycle was also traced through the Issuer A's general ledgers and supporting ledgers. When we perform the audit, and specifically when considering revenue recognition, we look at the entire earnings process and the different pieces of evidence and paper work that are a part of that process. Please see Exhibit I which shows samples of corroborating evidence, such as accounts receivable sub-ledger, journal entries, and job progress reports that were collected as a part of our alternative procedures. While we value the use of confirmations to gain reliance on account balances, they are not the only evidence available to support revenue recognition.

Redacted - Comments on Non-public Aspects of Report

Redacted - Comments on Non-public Aspects of Report



Sincerely,

Samuel H. Wong & Co., LLP



Partner: Samuel H. Wong