

Report on

**2013 Inspection of Albert Wong & Co. LLP
(Headquartered in New York, New York)**

Issued by the

Public Company Accounting Oversight Board

December 19, 2013

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**

2013 INSPECTION OF ALBERT WONG & CO. LLP

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Albert 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 inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included review of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit practice.

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/}

^{1/} In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from February 4, 2013 to February 8, 2013. 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 (New York, New York)
Ownership structure	Limited liability partnership
Number of partners	2
Number of professional staff ^{2/}	None
Number of issuer audit clients ^{3/}	6

^{2/} "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.

^{3/} 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. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.

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 inspection team identified what it considered to be audit deficiencies. The deficiencies identified in both of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. Those deficiencies were –

Issuer A

- (1) the failure to perform sufficient procedures to test the occurrence of revenue, including the use of sampling with inadequate sample sizes developed without consideration of appropriate factors and the inadequate performance of substantive analytical procedures;
- (2) the failure to perform sufficient procedures to test the valuation and classification of inventory, including the use of sampling with inadequate sample sizes developed without consideration of appropriate factors;
- (3) the failure to perform sufficient procedures to evaluate whether goodwill was impaired;

Issuer B

- (1) the failure to perform sufficient procedures to test the existence of accounts receivable; and
- (2) the failure to perform sufficient procedures to evaluate the business relationships and transactions between the issuer and a major customer and to evaluate the related financial statement presentation and disclosures.

B. Auditing Standards

Each of the deficiencies described in Part I.A of this report represents circumstances in which it appeared to the inspection team that the Firm failed to comply with the requirement to obtain sufficient appropriate audit evidence to support its opinion

that the financial statements were presented fairly, in all material respects, in accordance with applicable accounting principles. Each deficiency relates to several applicable standards that govern the conduct of audits.

AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), specify that due professional care requires the exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

Each deficiency described in Part I.A of this report involves, in the inspection team's view, a failure to comply with the provisions cited above and also a failure to perform, or perform sufficiently, certain specific audit procedures that are required by other applicable auditing standards. The table below lists the other specific auditing standards that are primarily implicated by the deficiencies identified in Part I.A of this report.^{4/}

Auditing Standards	Issuers
AU 350, <i>Audit Sampling</i>	A
AU 329, <i>Substantive Analytical Procedures</i>	A

^{4/} This table does not necessarily include reference to every auditing standard that may have been implicated by the deficiencies included in Part I.A.

Auditing Standards	Issuers
<i>AU 328, Auditing Fair Value Measurements and Disclosures</i>	A
<i>AU 330, The Confirmation Process</i>	B

C. 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. 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.

D. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and address any such weaknesses and deficiencies. 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. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies 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. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

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 Generally Accepted Accounting Principles ("GAAP").^{5/} 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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

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 and 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.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies

^{5/} 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 applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

to the firm's present ability to support its previously expressed audit opinions.^{6/} Depending upon the circumstances, compliance with these standards may require the firm to perform additional procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

END OF PART I

^{6/} See AU 390, *Consideration 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).



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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
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PART II

* * * *

B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control.^{7/} QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC 20"), provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of clients and engagements; (4) engagement performance; and (5) monitoring.

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 identified deficiencies in audit performance. These deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect in a firm's quality control system.^{8/} Defects in a firm's quality control system may also be identified through inspection procedures that are specifically focused on aspects of the firm's system of quality control.

^{7/} This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

^{8/} Not every audit deficiency suggests a possible defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

1. Design of Quality Control System

Independence Procedures

The Firm's independence procedures appear not to meet the requirements of PCAOB Rule 3400T(b),^{9/} in that the Firm * * * * does not have procedures to verify the completeness and accuracy of independence representations made by the Firm's partners. * * * *

Practice Monitoring

The Firm's system of quality control appears not to provide sufficient assurance that the Firm is effectively monitoring its accounting and audit practice as required by QC 20. Specifically, in the years since registering with the PCAOB in 2009, the Firm has not implemented monitoring procedures, such as an internal inspection program, to provide reasonable assurance that its quality control policies and procedures are suitably designed and are being effectively applied.

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 summarized in Part I.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 –

* * * *

^{9/} PCAOB Rule 3400T(b) requires registered firms to comply with the quality control standards described in section 1000.08(o) of the American Institute of Certified Public Accountants SEC Practice Section Reference Manual, which in turn requires that a firm have policies and procedures in place to comply with Appendix L, section 1000.46 of that manual.

Fraud Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all of the required procedures in accordance with the provisions of PCAOB Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*; AS No. 13; and AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, the professional judgment exercised by the Firm in determining the nature, timing, and extent of the testing of journal entries and other adjustments was not linked to fraud risk characteristics, and the Firm did not consider whether the substantive testing of journal entries for fraud was inclusive of all journal entries that met the unique identifying characteristics. Further, the Firm did not test the completeness of the population of journal entries from which the samples were selected. [Issuers A and B]

Required Communications

(i) Audit Committee Communications

The Firm's system of quality control appears not to provide sufficient assurance that the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented in accordance with applicable standards.^{10/} [Issuers A and B]

(ii) Independence Confirmations

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will provide to the audit committee, or equivalent, required independence confirmations in accordance with PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*. [Issuers A and B]

Audit Sampling

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will plan its sampling approach for testing certain assertions in accordance

^{10/} The applicable standard at the time of the audit was AU 380, *Communication With Audit Committees*, which has since been superseded by PCAOB Auditing Standard No. 16, *Communications with Audit Committees*.

with AU 350, *Audit Sampling*. Specifically, for both of the audits reviewed, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had used sufficient sample sizes that were determined with consideration given to appropriate factors, such as the established tolerable misstatement, the allowable risk of incorrect acceptance based on the assessed risk of material misstatement, and the characteristics of the population. [Issuers A and B]

Engagement Quality Review

Questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"). An engagement quality review performed with due care in compliance with AS No. 7 should have detected, and resulted in the Firm addressing, the revenue, inventory, goodwill impairment, and business relationships and transactions and related disclosures deficiencies described in Part II.A. In addition, in both of the audits reviewed, the audit work papers did not contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed and the documents reviewed by the engagement quality reviewer. Also, the engagement quality reviewer appeared not to possess the level of knowledge and competence related to accounting, auditing, and financial reporting required to serve as the engagement partner on the engagement under review as required by AS No. 7. [Issuers A and B]

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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.^{11/}

^{11/} 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 some cases, the result may be that none of a firm's response is made publicly available. 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.

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October 18, 2013

Mr. Alan Feldman
Public Company Oversight Board
1251 Avenue of Americas
New York, NY 10020

Re: Response to Draft Report on 2013 February Inspection of Albert Wong & Co., LLP.

Dear Mr. Feldman,

We are delighted to provide our response on the draft report of the Public Company Accounting Oversight Board ("PCAOB") concerning our firm 2013 inspection of two cases.

First of all, we would like to express our thankful to the professional efforts and expertise knowledge brought along to our firm by the PCAOB staff during the inspection. We believe this inspection is constructive and is necessary to help our firm continuously improving our audit quality. Secondly, we devoted our entire firm's effort, including staff seconded from associated firms, to adhere in the target to reach the highest audit quality while deliver in the most effective and efficiency manner.

Our follow up actions in response to the inspection comments are listed in the EXHIBIT below.

In our conclusion, we would like to site wordings from Professor R.K. Mautz and Professor H.A. Sharaf "Auditing stands at the threshold of service opportunities we can as yet scarcely foresee, to escape confusion and misplaced effort in its desire for real service." Our firm is taking the opportunity to thank PCAOB helping us providing improving professional auditing services, while delivering in an unambiguous and corrective manner, in the evolving financial statement reporting service platform.

Sincerely yours,

Albert Wong & Co., LLP.

Albert Wong & Co., LLP.

EXHIBIT

Follow up action in response to the inspection comment form (page 1)

- (1) QC-01, our firm had specifically asked the staff (including the company and seconded staff) concerning familiarity of SEC and PCAOB independence rules and regulation. This is a regular procedure in our current audit program.
- (2) QC-02, our firm had re-schedule peer review engagement in late November 2013 owing to the delay of summer holidays and various deadlines of the reviewer.
- (3) QC-03 Mr. Mui has been enhancing his training concerning PCAOB and SEC rules and regulations, especially in fraud examination. He had recorded the document reviewed by him.
- (4) QKL-01 Formal communication in writing, including oral communication summary with personnel in charge of oversight of the financial reporting process and corporate governance, is a standard procedure before acceptance of the audit for new clients. We will declare our independence in the beginning of the audit engagement for our firm, our associates and seconded staff. Formal communication with Board of Directors for new or renew audit cases regarding our firm's relationship with the issuer and that the firm is independent of the issuer is also a standard procedure. We would document in details for communicate with the personnel in charge of oversight of the financial reporting and corporate governance.
- (5) QKL-02 Two-step process for goodwill valuation testing is a standard procedure. In case fair value is below the book value, we would recommend client to provide goodwill impairment to reflect the reduction of value.
- (6) QKL-03 Field work staff are required to follow new guideline concerning with document on their professional judgment applied in determining the nature, timing and extent of the testing of journal entries, and the fraud risk testing procedures in response to fraud risk characteristic on sample size, sampling method, selection of sample and determinations for fraud risk assessment to comply with AU 316. We will redesign the test to take care the completeness assertion and unique risk characteristic of the journal entry adjustments. We will communicate with personnel in charge of oversight of the financial reporting process for our findings.

EXHIBIT

Follow up action in response to the inspection comment form (page 2)

- (7) QKL-04 The sampling methods applied in the field audit are re-designed to tackle with huge transactions of the client with random selected sampling method with enlarged sample size. Sampling procedures and factors being considered in determination of sample size and sample selection pursuant to AS 15 and AU 350 are required to document by the field work staff. The audit managers and partner are required to perform follow-up review, if it indicated any omission of significant procedures after the report date, the firm would follow AU 390 in case of no material changes or AU 561 in case of revision was required to avoid misleading.
- (8) QKL-05 The inventory is re-group in the sampling population for sample selection. Sample size was enlarged. The firm required the audit field staff to perform revised sampling procedures with enhancement on clear-cut documentation requirement pursuant to AS 15 and AU 350.
- (9) QKL-06 The audit sampling is always a challenge of audit firm. We are trying our best to select the appropriate sample size on our test of control and substantive test. Audit sampling is one of our test to verify whether corroborated evidence had been collect to support of audit finds, Moreover, audit manager and partner are required to review on the audit staff performance on the audit sampling documentation procedures with focus on the explanation on the reason of sample selection and the audit risk assessment concerning whether the requirement of AS 15 and AU 350 were met. If it indicated any omission of significant procedures after the report date, the firm would follow AU 390 in case of no material changes or AU 561 in case of revision was required to avoid misleading.
- (10)UCH-01 Formal communication in writing, including oral communication summary with personnel in charge of oversight of the financial reporting process and corporate governance, is a standard procedure before acceptance of the audit for new clients. We will declare our independence in the beginning of the audit engagement for our firm, our associates and seconded staff. Formal communication with Board of Directors for new audit cases regarding our firm's relationship with the issuer and that the firm is independent of the issuer is also a standard procedure. We would document in details for communicate with the personnel in charge of oversight of the financial reporting and corporate governance.
- (11)UCH-02 The audit staff are required to perform follow-up telephone call for non-responding customers and document their outcome as a follow-up audit work procedure. Alternative audit procedures are required to perform for the collectability and impairment implications.

EXHIBIT

Follow up action in response to the inspection comment form (page 3)

- (12)UCH-03 The sampling methods applied in the field audit are re-designed to tackle with huge transactions of the client with random selected sampling method with enlarged sample size. Sampling procedures and factors being considered in determination of sample size and sample selection pursuant to AS 15 and AU 350 are required to document by the field work staff. The audit managers and partner are required to perform follow-up review, if it indicated any omission of significant procedures after the report date, the firm would follow AU 390 in case of no material changes or AU 561 in case of revision was required to avoid misleading.
- (13)UCH-04 Our firm had recommended the client to disclose the relationship on Company H as major customer as required by ASC 280-10-50-42. However, the client had disposed the subsidiary that conducted business with Company H on July 21, 2013.
- (14)UCH-05 Field work staff are required to follow new guideline concerning with document on their professional judgment applied in determining the nature, timing and extent of the testing of journal entries, and the fraud risk testing procedures in response to fraud risk characteristic on sample size, sampling method, selection of sample and determinations for fraud risk assessment to comply with AU 316. We will redesign the test to take care the completeness assertion and unique risk characteristic of the journal entry adjustments. We will communicate with personnel in charge of oversight of the financial reporting process for our findings.