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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of JLKZ CPA LLP and
Jimmy P. Lee, CPA,*

Respondents.

PCAOB Release No. 105-2022-005

April 19, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) Censuring JLKZ CPA LLP (“JLKZ”) and Jimmy P. Lee, CPA (“Lee” and, together with JLKZ, “Respondents”);
- (2) Limiting JLKZ’s activities, for a period of two years from the date of this Order, by prohibiting JLKZ from accepting engagements to prepare or issue audit reports for new clients that are issuers, brokers, or dealers, as those terms are defined by the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB rules; and
- (3) Imposing a civil money penalty in the amount of \$50,000 jointly and severally on Respondents.

The Board is imposing these sanctions on the basis of Respondents’ violations of PCAOB rules and standards in connection with JLKZ’s issuance of audit reports for two issuers after the underlying audits had been performed by a separate public accounting firm that was not registered with the Board.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted against Respondents pursuant to Section 105(c) of the Act and PCAOB Rule 5200(a)(1).

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, the “Offers”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondents and the subject matter of these proceedings, which are admitted, Respondents each consent to the entry of this Order as set forth below.¹

III.

On the basis of Respondents’ Offers, the Board finds² that:

A. Respondents

1. **JLKZ CPA LLP** is a partnership organized under the laws of the state of New York and headquartered in Flushing, New York. The firm registered with the Board, pursuant to Section 102 of the Act and PCAOB rules, on November 28, 2018.

2. **Jimmy P. Lee, CPA** is a certified public accountant registered with the New York State Education Department (License No. 110032). Lee is the managing partner of JLKZ and an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Other Relevant Entities

3. **SBA Stone Forest CPA Co., Ltd. (“Stone Forest”)** is a limited liability corporation headquartered in Shanghai, China. Stone Forest is a public accounting firm, as that term is defined in Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii). Stone Forest is not now, and never has been, registered with the Board.

¹ The findings herein are made pursuant to Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

² The Board finds that Respondents’ conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

4. Issuer A was, at all relevant times, a Cayman Islands corporation headquartered in Huli District, Xiamen, China. It was, at all relevant times, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

5. Issuer B was, at all relevant times, a Cayman Islands corporation headquartered in Flushing, New York. It was, at all relevant times, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

6. This case concerns Respondents' conduct in allowing audit reports to be issued by JLKZ after the underlying audits had been conducted by an unregistered public accounting firm.

7. Specifically, JLKZ entered into an arrangement with Stone Forest contemplating that Stone Forest personnel would act as the engagement partner and engagement quality review ("EQR") partner for certain issuer audits, and that Stone Forest would receive the majority of the audit fees for such audits.

8. The 2019 audits of Issuer A and Issuer B were conducted under that arrangement: Stone Forest personnel served as the engagement partner, EQR partner, and audit staff. JLKZ's involvement in these audits was limited to a review of certain work papers, primarily to check that they used JLKZ templates, and a draft of the financial statements by Lee near the end of the audit. Lee nonetheless agreed to the issuance of audit reports for Issuer A and Issuer B by JLKZ.

9. By issuing audit reports where it had not conducted the underlying audits, JLKZ violated AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. By taking or omitting to take actions knowing, or recklessly not knowing, that his acts and omissions would directly and substantially contribute to the Firm's AS 3101 violations, Lee violated PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

D. Background

10. On or about February 1, 2019, Stone Forest submitted a registration application to the Board. On February 26, 2019, the Board requested that Stone Forest provide certain additional information. To date, Stone Forest has not responded to the Board's information request and is not registered with the Board.

11. On June 29, 2019, Stone Forest entered into a “Collaborative Professional Service Agreement” with JLKZ providing that, “[a]t each Party’s sole discretion, a Party may periodically seek to engage the other Party to perform services (the ‘Services’) on projects (each a ‘Project’).” The Collaborative Professional Service Agreement was signed by Lee on behalf of JLKZ and by a director of Stone Forest (“Stone Forest Director”) on behalf of Stone Forest.

12. The same day, the Stone Forest Director also entered into an agreement between himself and JLKZ. The agreement stated that the Stone Forest Director’s relationship to JLKZ was “that of an independent contractor” and that “[n]othing in this agreement shall be construed to form an employer-employee relationship.” The agreement further provided that “[e]ach party has no authority, right, or ability to bind or commit each other Party in any way.”

13. Two weeks later, on July 11, 2019, a partner in Stone Forest (“Stone Forest Partner”) likewise entered into an agreement with JLKZ, the terms of which were substantially the same as those of the Stone Forest Director’s agreement with JLKZ. Lee signed both agreements on behalf of JLKZ.

14. On June 28, 2020, Stone Forest entered into an “Alliance and Joint Marketing Agreement” with JLKZ, which stated that the two firms would “enter[] into an alliance with each other . . . for the purposes of soliciting clients and prospects for both [Stone Forest] and JLKZ.” Lee and the Stone Forest Partner signed this agreement on behalf of JLKZ and Stone Forest, respectively.

15. The Alliance and Joint Marketing Agreement provided that for PCAOB audit engagements “where [Stone Forest’s] partner(s) shall be the engagement partner and engagement quality reviewer for the Engagements . . . [Stone Forest] shall retain 80% of the Client Fees” and “JLKZ must be the technical quality and/or firm quality control reviewer for the Engagements and [Stone Forest] shall pay to JLKZ 20% of the Client Fees.”

16. The Alliance and Joint Marketing Agreement between JLKZ and Stone Forest further provided that “[e]ach party will be solely responsible to the client for their respective services rendered to the client. Delivery of services and invoicing will be processed independently and the parties covenant that to the extent practicable, to co-ordinate the delivery and completion of services.”

17. The 2019 audits of Issuer A and Issuer B were performed pursuant to the above arrangement among JLKZ and Stone Forest, the Stone Forest Director, and the Stone Forest Partner.

E. Respondents Violated PCAOB Rules and Standards

18. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.³

i. JLKZ Issued Audit Reports for Issuer A and Issuer B Without Conducting an Audit in Accordance with PCAOB Standards

19. PCAOB standards provide that "[t]he auditor is in a position to express an unqualified opinion on the financial statements when the auditor conducted an audit in accordance with the standards of the Public Company Accounting Oversight Board ('PCAOB') and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework."⁴

20. Stone Forest's personnel planned, performed, and supervised the audits of Issuer A's and Issuer B's 2019 financial statements as of December 31, 2019. Despite Stone Forest's performance of the underlying audits, JLKZ issued an audit report on Issuer A's and Issuer B's 2019 financial statements.

21. Because Stone Forest, not JLKZ, performed the underlying audits, JLKZ was not in a position to express an opinion on Issuer A's or Issuer B's 2019 financial statements.⁵ In doing so, JLKZ violated AS 3101.

a. The 2019 Audit of Issuer A

22. The Stone Forest Director obtained the 2019 Issuer A audit engagement after Issuer A's audit committee chairman, who had previously worked with the Stone Forest

³ PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

⁴ AS 3101.02.

⁵ *See id.*; *see also Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*, Staff Audit Practice Alert No. 6, at 7 (July 12, 2010) (describing how PCAOB inspectors identified inspection findings where "the level of [a] firm's involvement in the audit work performed by [another firm] was not sufficient for the firm to assert that an audit had been performed by the firm and that the audit provided a reasonable basis for the firm to have an opinion on the financial statements").

Director at an unrelated entity, approached the Stone Forest Director about the audit engagement opportunity.

23. The Stone Forest Director served as the engagement partner, and the Stone Forest Partner served as the EQR partner, for the Issuer A audit. As engagement partner, the Stone Forest Director supervised the planning and performance of the audit procedures and authorized the issuance of the audit report.

24. Stone Forest personnel acted as the audit staff for the Issuer A audit and performed the audit procedures.

25. Stone Forest billed the audit fees directly to, and was paid by, Issuer A.

26. Accordingly, Stone Forest and its personnel obtained, supervised, performed, and billed the client for the 2019 Issuer A audit engagement.

27. Near the end of the audit, and before the audit report was issued under JLKZ's name, Lee reviewed certain work papers, primarily to check that they used JLKZ templates, and a draft of the financial statements. He drafted a memorandum documenting certain questions he had in connection with his review.

28. Lee considered that the purpose of his review was to gain assurance that the Issuer A audit had been conducted in a manner that was consistent with JLKZ's quality control policies and procedures.

29. Lee's review was insufficient for JLKZ to conclude that it had performed the audit or to provide a reasonable basis for the firm to issue an opinion on the financial statements.⁶

30. Nonetheless, on May 11, 2020, JLKZ issued an audit report expressing an unqualified opinion on Issuer A's 2019 financial statements. Issuer A filed JLKZ's audit report with the Commission.

31. Because Stone Forest, not JLKZ, performed the 2019 Issuer A audit, JLKZ did not conduct an audit in accordance with the standards of the PCAOB.⁷ By expressing an unqualified

⁶ See AS 3101.02; see also *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*, Staff Audit Practice Alert No. 6, at 7.

⁷ See AS 3101.02.

opinion on Issuer A's financial statements without having conducted an audit of those financial statements, JLKZ violated AS 3101.

b. The 2019 Audit of Issuer B

32. The Stone Forest Partner obtained the 2019 Issuer B audit engagement after a business contact who knew about the engagement opportunity approached him about it.

33. The Stone Forest Partner served as the engagement partner, and the Stone Forest Director served as the EQR partner, for the Issuer B audit. As engagement partner, the Stone Forest Partner supervised the planning and performance of the audit procedures and authorized the issuance of the audit report.

34. Stone Forest personnel acted as the audit staff for the Issuer B audit and performed the audit procedures.

35. Stone Forest billed the audit fees directly to, and was paid by, Issuer B.

36. Accordingly, Stone Forest and its personnel obtained, supervised, performed, and billed the client for the 2019 Issuer B audit engagement.

37. As with the Issuer A audit, Lee reviewed certain work papers, primarily to check that they used JLKZ templates, and a draft of the financial statements near the end of the Issuer B audit. Lee's review was insufficient for JLKZ to conclude that it had performed the audit or to provide a reasonable basis for the firm to issue an opinion on the financial statements.⁸

38. Nonetheless, on July 29, 2020, JLKZ issued an audit report expressing an unqualified opinion on Issuer B's 2019 financial statements. Issuer B filed JLKZ's audit report with the Commission.

39. Because Stone Forest, not JLKZ, performed the Issuer B audit, JLKZ did not conduct an audit in accordance with the standards of the PCAOB.⁹ By expressing an unqualified opinion on Issuer B's financial statements without having conducted an audit of those financial statements, JLKZ violated AS 3101.

⁸ See AS 3101.02; see also *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants from Outside the Firm*, Staff Audit Practice Alert No. 6, at 7.

⁹ See AS 3101.02.

ii. Lee Substantially Contributed to JLKZ's Violations of AS 3101

40. PCAOB rules prohibit an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to the firm's violation of PCAOB rules or professional standards.¹⁰

41. As JLKZ's managing partner, Lee was in a position to prevent the firm from issuing audit reports where it had not performed the underlying audits, but he failed to do so.

42. On behalf of JLKZ, Lee entered into agreements with Stone Forest and its personnel pursuant to which the two firms would "collaborate" in offering professional services to clients, with Stone Forest audit staff performing and supervising the audit procedures, and Stone Forest receiving 80% of the fees, for PCAOB audits.

43. Lee was further aware that, consistent with the agreements he had signed, the 2019 Issuer A and Issuer B audits were planned and conducted by Stone Forest personnel who served as the engagement partner and EQR partner for each audit.

44. Even though he knew, or was reckless in not knowing, that the 2019 Issuer A and Issuer B audits had been planned and performed by Stone Forest, not by JLKZ, Lee agreed to the issuance of the Issuer A and Issuer B audit reports in JLKZ's name. Accordingly, Lee directly and substantially contributed to JLKZ's violations of AS 3101, in violation of Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rules 5300(a)(5), JLKZ CPA LLP and Jimmy P. Lee, CPA are censured;
- B. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), JLKZ CPA LLP shall be prohibited, for a period of two years from the date of this Order, from accepting engagements to prepare or issue audit reports for new clients who are issuers, as that term is defined by Section 2(a)(7) of the Act and

¹⁰ PCAOB Rule 3502.

PCAOB Rule 1001(i)(iii), as well as for new clients who are brokers or dealers, as those terms are defined by PCAOB Rules 1001(b)(iii) and 1001(d)(iii); and

- C. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty of \$50,000 jointly and severally on JLKZ CPA LLP and Jimmy P. Lee. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Respondents shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

April 19, 2022