

# PCAOB Sanctions Hong Kong Audit Firm, its New York Affiliate, and Four Individuals

Washington, May 19, 2016

The Public Company Accounting Oversight Board today announced sanctions in settled disciplinary orders against a Hong Kong audit firm, its New York affiliate, and four individuals for violations of PCAOB rules and standards arising from audits of a NASDAQ-listed company located in the People's Republic of China.

AWC (CPA) Limited, a Hong Kong audit firm, and its managing director and director of audit were sanctioned for improperly relying on management representations, ignoring red flags indicating possible fraud, impaired independence, and other violations. AWC LLP, an affiliated firm in New York, and its two partners were sanctioned for quality control, impaired independence, and other violations.

"Investors are relying on PCAOB-registered audit firms, including foreign-based firms, to perform their audit responsibilities as gatekeepers to our capital markets," said James R. Doty, PCAOB Chairman. "The Board's disciplinary action demonstrates that these firms and their personnel are accountable under U.S. law for their significant failures."

The settled disciplinary orders sanctioning both the firms and individuals included the following:

- **AWC (CPA) Limited** —Censured and revoked firm's PCAOB registration with a right to reapply after two years, and a \$10,000 civil money penalty.
  - **"Albert" WONG Chi Wai**—Censured and barred from being an associated person with a right to request terminating the bar after two years, and a \$10,000 civil money penalty.
  - **"Martin" WONG Fei Cheung**—Censured and barred from being an associated person with a right to request terminating the bar after one year and a \$5,000 civil money penalty.
- **AWC LLP** —Censured and suspended firm's PCAOB registration for one year.
  - **Mun Leung "Clive" CHUNG**—Censured and barred from being an associated person with a right to request

terminating the bar after two years, and a \$5,000 civil money penalty.

- **Lam Shan MUI**—Censured and limitation placed on activities that he can perform in connection with public company audits for one year, and requirement to complete additional professional education related to ethics and independence requirements.

Both firms and all individuals consented to the respective orders without admitting or denying the Board's findings.

According to the order, AWC (CPA) Limited issued unqualified audit opinions on the financial statements of a NASDAQ-listed company for year-end 2010, 2011, and 2012 filings, despite numerous audit deficiencies. AWC improperly relied on management representations in auditing cash and revenue and ignored numerous red flags indicating potential fraud and undisclosed related-party transactions.

When AWC learned during the 2010 audit that the chairman and an employee of the audited company held significant amounts of the company's cash in their personal bank accounts, the engagement team failed to consider whether these transactions may have been executed to engage in or conceal fraud.



**ORDER**

**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 pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against the Firm, Albert Wong, and Martin Wong (collectively "Respondents").

**II.**

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (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 them and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (the "Order") as set forth below.<sup>4</sup>

**III.**

On the basis of Respondents' Offers, the Board finds<sup>5</sup> that:

**A. Respondents**

1. **AWC (CPA) Limited** ("AWC" or the "Firm"), a public accounting firm incorporated in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), is registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA") as a certified public accounting firm (License No. 1186). AWC

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<sup>4</sup> The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

<sup>5</sup> 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 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.

**ORDER**

is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB Rules.<sup>6</sup> At all relevant times, AWC was the external auditor of **Kandi Technologies Group, Inc.**

2. **WONG Chi Wai**, also known as Albert Wong ("Albert Wong"), 49, of Hong Kong, is a certified public accountant (practising) registered with the HKICPA (License No. P2231) and the managing director of AWC. At all relevant times, he was the sole proprietor of AWC and the engagement partner on the audits of the consolidated financial statements of Kandi Technologies Group, Inc. **for the years ended December 31, 2010, December 31, 2011, and December 31, 2012** (collectively, the "Kandi Audits"). Albert Wong is, and at all relevant times was, 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).

3. **WONG Fei Cheung**, also known as Martin Wong ("Martin Wong"), 45, of Hong Kong, is a certified public accountant (practising) registered with the HKICPA (License No. A18467) and a certified practising accountant licensed by CPA Australia (License No. 1878973). At all relevant times, Martin Wong was the Director of Audit at AWC and reported to Albert Wong. Martin Wong is, and at all relevant times was, 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 Entity and Individuals**

4. **AWC LLP**<sup>7</sup> is a limited liability partnership organized under New York law, headquartered in New York, New York and is licensed by New York State Education Department (License No. 67333) to practice public accountancy.<sup>8</sup> AWC LLP is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules. At all relevant times, AWC LLP was an affiliate and associated entity of AWC.

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<sup>6</sup> In January 2015, AWC (CPA) Limited succeeded to the registration status of its predecessor, Albert Wong & Co., a Hong Kong sole proprietorship.

<sup>7</sup> In October 2015, AWC LLP changed its legal name from Albert Wong & Co. LLP.

<sup>8</sup> See AWC LLP, Mun Leung CHUNG, CPA, and Lam Shan MUI, CPA, PCAOB Release No. 105-2016-017 (May 18, 2016).

**ORDER**

5. **Mun Leung CHUNG**, also known as Clive Chung ("Chung"), 55, of New York, New York and Hong Kong, is a certified public accountant licensed by New York State Education Department (License No. 076306) and is also a certified public accountant (practising) registered with the HKICPA (License No. A37788). Chung is, and at all relevant times was, the **managing partner of AWC LLP. Chung also served as the engagement quality reviewer for the Kandi Audits.** Chung is, and at all relevant times was, 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).

6. **Lam Shan MUI** ("Mui"), 67, of New York, New York, is a certified public accountant licensed by New York State Education Department (License No. 072623). At all relevant times, Mui was a partner of AWC LLP 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).

**C. Summary**

7. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the issuance of audit reports on the consolidated financial statements of Kandi Technologies Group, Inc. ("Kandi" or the "Company") for the years ended December 31, 2010, 2011, and 2012. As detailed below, Respondents, among other things, failed repeatedly to exercise due professional care and professional skepticism, to obtain sufficient appropriate audit evidence with respect to financial statement assertions, to include procedures designed to provide reasonable assurance of detecting fraud or illegal acts that would have a direct and material effect on the determination of financial statement amounts, and to prepare and maintain adequate audit documentation.

8. As the auditor with final responsibility and the engagement partner on the Kandi Audits, **Albert Wong also failed to supervise the engagement staff.**

9. Throughout the Kandi Audits, the Firm repeatedly violated PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"), by failing to have an engagement quality review performed with objectivity. As described below, **the engagement quality reviewer in the Kandi Audits did not maintain objectivity because while serving in this capacity, he was an active member of the engagement team and performed audit procedures with respect to the audit of Kandi's deferred taxes and related disclosures.**

10. In addition, the Firm and Albert Wong violated Section 10A(g) of the Exchange Act, Exchange Act Rule 10A-2, and PCAOB rules and standards that require a registered public accounting firm and its associated persons to be independent of the

**ORDER**

firm's audit client throughout the audit and professional engagement period. The Firm and Albert Wong were not independent of Kandi for the 2012 audit because a partner of AWC LLP, an affiliate and associated entity of the Firm, provided prohibited non-audit services to Kandi by accepting a Power-of-Attorney from Kandi and representing Kandi before a New York State regulatory agency.

11. Finally, the Firm failed to comply with PCAOB quality control standards in connection with the audits described herein, when it did not establish policies and procedures to provide the Firm with reasonable assurance that its personnel maintained independence in all required circumstances;<sup>9</sup> the work performed by the engagement personnel met applicable professional standards, regulatory requirements, and the firm's standards of quality;<sup>10</sup> and the policies and procedures established by the firm for the elements of quality control were suitably designed and were being effectively applied.<sup>11</sup> Albert Wong, as the sole-proprietor and person ultimately responsible for the design, implementation and maintenance of the Firm's system of quality control took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

**D. Respondents' Violations of PCAOB Rules and Standards and the Exchange Act**

12. 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.<sup>12</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor

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<sup>9</sup> QC §§ 20.09–.10, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

<sup>10</sup> QC §§ 20.07 and 20.17–.19.

<sup>11</sup> QC §20; see also QC §§ 30.02 – .03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

<sup>12</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*. All references to PCAOB standards are to the versions of those standards in effect at the time of the audits.

**ORDER**

has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>13</sup>

13. For audits of fiscal years beginning before December 15, 2010, the standards require, among other things, that the auditor obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion regarding the financial statements.<sup>14</sup> For audits of fiscal years beginning on or after December 15, 2010, the standards require, among other things, that the auditor plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report.<sup>15</sup> Those standards also state that the engagement partner is responsible for proper supervision of engagement team members. Supervision includes, among other things, informing the engagement team of matters that could affect the procedures to be performed or the evaluation of the results of those procedures; and reviewing the engagement team's work to evaluate whether it was properly performed and documented, the objectives of the procedures were achieved, and the results of the work support the conclusion reached.<sup>16</sup>

14. PCAOB standards further require that an auditor exercise due professional care and professional skepticism, in the performance of the audit and preparation of the report.<sup>17</sup> PCAOB standards also require that auditors perform procedures to identify, assess, and respond to risks of material misstatement due to fraud.<sup>18</sup> The Exchange Act further requires a registered public accounting firm to include procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts in public company audits.<sup>19</sup>

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<sup>13</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>14</sup> See AU § 326, *Evidential Matter*.

<sup>15</sup> See Auditing Standard No. 15, *Audit Evidence* ("AS No. 15").

<sup>16</sup> See Auditing Standard No. 10, *Supervision of the Audit Engagement* ("AS No. 10").

<sup>17</sup> See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

<sup>18</sup> See AU § 316, *Consideration of Fraud in a Financial Statement Audit*.

<sup>19</sup> See Section 10A(a)(1) of the Exchange Act.

**ORDER**

15. In addition, PCAOB standards require audit documentation to contain sufficient information to enable an experienced auditor, having no previous connection with the engagement: (a) to understand the nature, timing, extent and results of the procedures performed, evidence obtained, and conclusions reached; and (b) to determine who performed the work and the date the work was completed as well as the person who reviewed the work and the date of such review.<sup>20</sup>

16. An engagement quality review and concurring approval of issuance are required for an audit conducted pursuant to PCAOB standards. The engagement quality reviewer must be independent of the company, perform the engagement quality review with integrity, and maintain objectivity in performing the review.<sup>21</sup>

17. As described below, Respondents failed to comply with PCAOB rules and standards during the Kandi Audits. In addition, Respondents failed to comply with applicable Exchange Act requirements in the audit of Kandi's 2010 financial statements.

***i. Audit of Kandi's 2010 Financial Statements***

18. Kandi Technologies Group, Inc. is, and at all relevant times was, a Delaware corporation with its headquarters and primary operations in Zhejiang Province, People's Republic of China ("PRC"). Kandi's public filings disclose that it is a manufacturer of electric vehicles, go-karts, all-terrain vehicles and other specialty vehicles for sale domestically and abroad. Its common stock is registered under Section 12(b) of the Exchange Act, and is quoted on the NASDAQ Stock Market. At all relevant times, Kandi was an "issuer" as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

19. AWC issued an audit report, dated March 31, 2011, expressing an unqualified opinion on Kandi's financial statements for the year ended December 31, 2010. The report was included in Kandi's Form 10-K, filed with the Securities and Exchange Commission ("Commission") on March 31, 2011. Albert Wong, as the auditor with final responsibility for the audit of Kandi's financial statements for the year ended December 31, 2010 ("Kandi 2010 Audit"), authorized the issuance of the audit report.

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<sup>20</sup> See Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), ¶ 6.

<sup>21</sup> See Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"), ¶¶ 1, 6 and 7.

**ORDER**

**Cash Testing**

20. In its consolidated financial statements for the year ended December 31, 2010, Kandi reported cash and restricted cash balances of \$25.2 million representing approximately 34% of \$74.3 million in total current assets. For \$7.1 million<sup>22</sup> of cash and restricted cash accounts, representing 28% of the total cash and restricted cash balances, Respondents failed to exercise due professional care and skepticism and to obtain sufficient competent evidential matter in relying primarily on management representations that the funds held in the personal accounts of a staff person in Kandi's finance department ("Cashier") and Kandi's Chairman ("Chairman") met all of the relevant financial statement assertions to be presented as Kandi's cash or restricted cash as of December 31, 2010.

21. For example, \$3.0 million of the cash reported by Kandi in the financial statements was held in a personal account of the Cashier at year end. To support the assertions for this balance, Respondents inappropriately relied on management's written representations that the Cashier was authorized to hold this amount on Kandi's behalf without obtaining any additional evidence to support that the cash existed at year end or that Kandi had the rights to it. Despite contradictory evidence in Kandi's records indicating that this amount might have been a loan to the Cashier, Respondents failed to investigate the circumstances or otherwise consider the reliability of management's representations.<sup>23</sup>

22. The Cashier also held \$2.5 million of cash, reported as restricted cash in the financial statements, in two of her personal accounts at year end, for which Respondents failed to obtain sufficient competent evidential matter regarding the relevant financial statement assertions. Respondents relied on the Cashier's written representations, dated in September and October of 2010, that these amounts existed in these two personal accounts, and Kandi had the rights to them at year end.

23. With respect to \$1.6 million of Kandi's cash reported as restricted and held in personal accounts of the Chairman, Respondents also placed inappropriate reliance on management representations and ignored contradictory audit evidence. For \$0.8 million of cash reported as restricted in Kandi's financial statements as of December 31,

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<sup>22</sup> Amounts presented in this Order in U.S. dollars (\$) that were originally denominated in Chinese Yuan (Renminbi) have been converted per the applicable exchange rates used for financial statement reporting purposes in the respective Kandi Audits.

<sup>23</sup> See AU § 333.04, *Management Representations*.

**ORDER**

2010, Respondents placed improper reliance on the Chairman's written representation that he held this amount on behalf of Kandi as of May 5, 2010, without corroborating this representation. With regard to an additional \$0.8 million of cash reported as restricted, Respondents obtained no corroborating audit evidence after management represented, in response to a discrepancy in a bank confirmation reply, that amount was instead held by the Chairman in a personal account. Respondents failed to perform sufficient audit procedures to resolve the confirmation exception and failed to perform sufficient tests to address the relevant financial statement assertions concerning the balances.

24. During the 2010 Audit, Respondents identified as a significant unusual transaction the aforementioned \$3.0 million of cash held in the Cashier's personal account and reported this transaction to the audit committee as evidence of a key internal control weakness. However, for the remaining \$4.1 million of restricted cash held in the Cashier and Chairman's personal accounts, Respondents failed to consider whether these amounts, which were similar in nature to the \$3.0 million transaction reported to the audit committee as a key control weakness, were also significant unusual transactions and to report them to the audit committee.

25. Kandi management represented to Respondents that the \$3.0 million temporarily held by the Cashier in her personal account was at the request of Kandi's bank. However, for all of the cash and restricted cash balances held in the personal accounts of the Cashier and Chairman, Respondents failed to consider management's rationale of having Company funds held in the personal bank accounts of the Cashier and Chairman, and whether the stated business rationale (or lack thereof) suggested that the transaction may have been entered into to engage in fraudulent financial reporting or conceal the misappropriation of assets.<sup>24</sup>

26. At no time during the Kandi 2010 Audit did Respondents consider whether the cash amounts reported as restricted and held in the Chairman's personal accounts represented personal loans from Kandi that might constitute illegal acts, or for which disclosure would have been required as related party transactions. As a result, Respondents violated Section 10A(a)(1) of the Exchange Act by failing to include in the audit procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts.<sup>25</sup>

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<sup>24</sup> See AU § 316.66–.67.

<sup>25</sup> See 15 U.S.C. § 78j-1(a)(1).

**ORDER**

The Kandi USA Inc. Transactions

27. In its 2010 financial statements, Kandi reported accounts receivable of approximately \$17 million, which represented 23% of total reported current assets. The Respondents knew that prior to the adjustment described below, Kandi's accounting records originally recorded total sales to Kandi USA Inc. ("Kandi USA") of \$2.1 million at year end.<sup>26</sup> Further, Kandi USA was one of the top five largest outstanding accounts receivable balances at year end and was Kandi's fifth largest customer by revenue, representing 5% of Kandi's reported net revenue and 8% of the reported accounts receivable.

28. In planning the audit, Respondents had identified related party transactions and revenue as key audit risks. Additionally, in assessing control risks, Respondents identified an internal control deficiency, related to the identification, monitoring and review of related party transactions and conflicts of interests, as a key control weakness.

29. After learning that transactions involving Kandi USA had been recorded under a pseudonym, Respondents inquired several times of management whether Kandi USA was a related party of Kandi and, when management did not adequately respond to their inquiries, failed to take those responses into consideration in the audit. Five days before Kandi's Form 10-K filing deadline, Respondents ultimately received an email that included a suggestion from Kandi's Chairman that revenue from the Kandi USA sales had been incorrectly recorded, and should be changed to reflect the revenue as being from sales to Zhejiang Yongkang Top Import & Export Co. ("Dingji"). Respondents understood that, until 2008, Dingji had been Kandi's subsidiary. At the time of the Kandi 2010 Audit, they further understood that Dingji was Kandi's second largest customer, and was owned, in part, by the "legal representative" of Kandi's largest supplier, Zhejiang Mengdeli Electric Co. Ltd ("Mengdeli").<sup>27</sup> Respondents also

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<sup>26</sup> References to Kandi USA amounts as originally recorded refer to amounts relating to transactions recorded under a pseudonym used by Kandi during 2010 for its transactions involving Kandi USA.

<sup>27</sup> In the PRC, a "legal representative" is a natural person appointed to act on a company's behalf, and who is authorized to perform all acts regarding general administration of a company, including the authority to enter into contractual agreements and assume responsibilities for the company. See, e.g., Daisy Xu & Matthew McKee; Legal Representatives: Understanding the Risks and Responsibilities; (February 24, 2016); [http://www.lehmanlaw.com/fileadmin/lehmanlaw\\_com/Publications/Briefing\\_Paper\\_Series/Legal\\_Representatives-Understanding\\_the\\_Risks\\_and\\_Responsibilities.pdf](http://www.lehmanlaw.com/fileadmin/lehmanlaw_com/Publications/Briefing_Paper_Series/Legal_Representatives-Understanding_the_Risks_and_Responsibilities.pdf).

**ORDER**

knew that Kandi had pledged fixed assets of \$11.5 million as collateral to guarantee Mengdeli's bank loans and that Mengdeli had also acted as the guarantor on a \$15.1 million bank loan taken out by Kandi.

30. Attached to the emailed suggestion from Kandi's Chairman were a sample sales contract, which was between Kandi and Dingji, and its related official export invoices issued and filed by Kandi with the relevant governmental authorities. The export invoices, which were required to ship goods overseas, show the seller as Kandi and the buyer as Kandi USA, with Los Angeles USA as the shipping destination. Notwithstanding contradictory audit evidence and based primarily on a review of those sample documents, Respondents agreed with the Chairman's suggestion to adjust the revenue and related receivable from Kandi USA to Dingji. At the time Respondents agreed with the Chairman's suggestion to adjust all of Kandi USA transactions to Dingji, the engagement team had additional contradictory audit evidence, including: (i) a confirmation response from Kandi USA confirming its account receivable balance as of year-end; (ii) an initial confirmation response from Dingji, confirming an account receivable that did not include the amounts relating to the transactions with Kandi USA; and (iii) cash receipt transactions showing that Kandi USA had paid Kandi for a selection of these sales.

31. Respondents failed to perform sufficient procedures to corroborate management's last-minute assertions that revenue originally recorded as being from Kandi USA should have been from Dingji. And they failed to exercise due professional care and professional skepticism by ignoring red flags and failing to address the contradictory audit evidence that indicated Kandi USA was the actual purchaser of Kandi's vehicles.<sup>28</sup>

32. The auditor's assessment of the risks of material misstatement due to fraud should be ongoing throughout the audit and include conditions, such as last-minute adjustments, that significantly affect financial results.<sup>29</sup> When audit test results identify misstatements in the financial statements, the auditor should consider whether such misstatements may be indicative of fraud.<sup>30</sup> Despite the aforementioned red flags, Respondents failed to assess the risk of fraud related to these last-minute adjustments to reflect the Kandi USA revenue as being from Dingji, including whether

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<sup>28</sup> See AU § 411.06, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*.

<sup>29</sup> See AU § 316.68.

<sup>30</sup> See AU § 316.75.

**ORDER**

these adjustments were motivated by management's desire to conceal Kandi's transactions with Kandi USA in order to avoid related party disclosures. Furthermore, despite their knowledge that Mengdeli's legal representative was one of Dingji's two owners and thus able to exert some control over both entities, Respondents failed to determine whether Dingji might be a related party.<sup>31</sup>

33. Significantly, Respondents failed to document their rationale for concluding that the sales transactions to Kandi USA be adjusted to Dingji.<sup>32</sup> Respondents, in preparing the final set of audit documentation, also eliminated all references to Kandi USA, in violation of audit documentation requirements.

Subsequent Discovery that Kandi USA was a Related Party

34. PCAOB standards require that when an auditor becomes aware of information related to financial statements previously reported on by him, but which was not known to him at the date of his report, and which is of such a nature and from such a source that he would have investigated it had it come to his attention during the course of his audit, he should, as soon as practicable, undertake to determine whether the information is reliable and whether the facts existed at the date of his report. The auditor should also discuss the matter with his client at whatever management levels he deems appropriate, including the board of directors, and request cooperation in whatever investigation may be necessary.<sup>33</sup>

35. In May 2011, less than six weeks after the Firm issued its report on Kandi's 2010 consolidated financial statements, Kandi filed a Form 8-K. The Form 8-K included a letter from Kandi's Chairman stating, among other things, that the son of Kandi's Chairman was the owner of Kandi USA. After becoming aware of this disclosure, Respondents failed to take appropriate steps to address this new information. Specifically, they failed to determine whether the nature and effect of that information were such that it would have affected AWC's previously released audit report, including whether management's evasive responses regarding Kandi USA during the audit and the Chairman's suggestion to adjust the revenue from Kandi USA,

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<sup>31</sup> See FASB Accounting Standards Codification ("ASC") Master Glossary, *Related Parties*.

<sup>32</sup> See AS No. 3 ¶ 8.

<sup>33</sup> See AU § 561.04, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

**ORDER**

among other things, were fraud risks factors,<sup>34</sup> or otherwise cast doubt on management's integrity and the reliability of the representations made during the Kandi 2010 Audit.<sup>35</sup>

**ii. Audit of Kandi's 2011 Financial Statements**

36. The Firm issued an audit report, dated March 30, 2012, expressing an unqualified opinion on Kandi's financial statements for the year ended December 31, 2011. The report was included in Kandi's Form 10-K, filed with the Commission on March 30, 2012. Albert Wong authorized the issuance of the report.

37. As the engagement partner for the audit of Kandi's financial statements for the year ended December 31, 2011 ("Kandi 2011 Audit"), Albert Wong was responsible for supervision of the engagement team. Albert Wong failed to evaluate whether the work of engagement team was properly performed and documented, the objectives of the procedures were achieved, and the results of the work supported the conclusions reached. For example, Albert Wong failed to address instances in which the engagement team did not document procedures performed, evidence obtained and conclusions reached during the Kandi 2011 audit.

38. In the financial statements filed with its Form 10-K, Kandi reported a notes receivable balance of \$37.9 million as of December 31, 2011, of which \$33.1 million was a note due from Yongkang HuiFeng Guarantee Co., Ltd. ("Huifeng"). In planning the Kandi 2011 Audit, Respondents identified the collectability of notes receivable as a key audit risk. Respondents also noted as a "major issue" that the Huifeng note receivable balance had increased significantly, and that in 2011, Kandi had received no payments on interest accrued in that year. Notwithstanding these identified risks, the engagement team failed to gain an appropriate understanding of the terms of the note, and to perform procedures, including sufficient tests of details, that were specifically responsive to the assessed risks.

39. Respondents failed to obtain sufficient appropriate evidence to support the valuation and disclosure assertion for notes receivable, in part, because the engagement team did not evaluate Huifeng's financial condition or credit worthiness, or adequately address audit evidence it obtained that contradicted management representations regarding the rationale for, and collectability of, the Huifeng note

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<sup>34</sup> See AU § 316.31–.33.

<sup>35</sup> See AU § 333.04.

**ORDER**

receivable.<sup>36</sup> Among other things, Respondents and the engagement team failed to demonstrate an understanding of the existence of any collateral and whether the loan was subject to any covenants, and that the subsequent settlements of the note disclosed in the financial statements were sufficiently supported by appropriate audit evidence.

**iii. Audit of Kandi's 2012 Financial Statements**

40. The Firm issued an audit report, dated April 1, 2013, expressing an unqualified opinion on Kandi's financial statements for the year ended December 31, 2012. The report was included in Kandi's Form 10-K, filed with Commission on April 1, 2013. Albert Wong authorized the issuance of the audit report. As the engagement partner for the audit of Kandi's financial statements for the year ended December 31, 2012 ("Kandi 2012 Audit"), Albert Wong was responsible for the supervision of the engagement team.

41. During the Kandi 2012 Audit, as in previous years, Respondents identified related party transactions as a key audit risk. However, Respondents and the engagement team failed to address red flags regarding related party transactions and failed to place emphasis on testing material transactions with a related party.<sup>37</sup>

42. Eliteway Motorsports ("Eliteway"), which was a trade name for Kandi USA, was Kandi's fifth largest customer for 2012, and its sales represented more than 8% of Kandi's 2012 net revenues. Although Respondents had known since May 2011 that Kandi USA was a related party to Kandi, Albert Wong failed to properly inform the other Kandi 2012 Audit engagement team members of this fact so that they could identify, and place appropriate emphasis on, testing material transactions with parties known to be related to Kandi.<sup>38</sup>

43. During the Kandi 2012 Audit, the engagement team traced subsequent settlements of the Eliteway receivable to documents showing that Kandi USA had paid such amounts to Kandi, and that, in fact, Kandi USA was doing business as Eliteway. The engagement team also saw invoices issued to Kandi USA for transactions Kandi recorded as Eliteway's. Yet, there is no evidence in the Kandi 2012 Audit that the

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<sup>36</sup> See AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, ¶ 11, and AS No. 15.

<sup>37</sup> See AU § 334.07, *Related Parties*.

<sup>38</sup> See AU § 334.07, .08.

**ORDER**

engagement team appropriately identified these transactions as being with a related party. Consequently, Respondents failed to identify that the Eliteway transactions, which were material, were not properly disclosed as related party transactions in the financial statements in Kandi's 2012 Form 10-K filing.<sup>39</sup>

***iv. Respondents Violated Audit Documentation Requirements during the Kandi Audits***

44. PCAOB standards require that the "auditor must document the procedures performed, evidence obtained, and conclusions reached with respect to relevant financial statement assertions. Audit documentation must clearly demonstrate that the work was in fact performed.... Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement... [t]o determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review."<sup>40</sup>

45. Throughout the Kandi Audits, Respondents failed to comply with these documentation requirements. Albert Wong and Martin Wong repeatedly failed to document their review of the work of the engagement team members, in order to evaluate whether the teams' work was performed and documented, and to ensure that the engagement team complied with audit documentation requirements, including indicating who performed the work and the date such work was completed.<sup>41</sup> In addition to the audit documentation failures noted above, Respondents failed to document the required details of the discussion amongst engagement team members in planning the audit regarding the susceptibility of Kandi's financial statements to material misstatement due to fraud.<sup>42</sup>

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<sup>39</sup> In the course of the audit of Kandi's December 31, 2013 financial statements, Albert and Martin Wong learned that Kandi USA was doing business as Eliteway Motorsports. In Kandi's Form 10-K filed with the Commission for the year ended December 31, 2013, the disclosures for the 2012 transactions with Eliteway were then corrected as being with a related party.

<sup>40</sup> AS No. 3 ¶ 6.

<sup>41</sup> See AS No. 10 ¶ 5(c)(1), AS No. 3 ¶ 6(b).

<sup>42</sup> AU § 316.83.

**ORDER**

**v. *Albert Wong and the Firm Failed to Comply with Engagement Quality Review Requirements during the Kandi Audits***

46. PCAOB standards require an engagement quality review and concurring approval of issuance for each audit engagement, and that the engagement quality reviewer perform the review with integrity, and maintain objectivity in performing the review.<sup>43</sup> To maintain objectivity, the engagement quality reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.<sup>44</sup>

47. Throughout the Kandi Audits, Chung served as the engagement quality reviewer. Yet, because he was also concurrently responsible in those same audits for performing audit procedures on the deferred tax balances and related tax disclosures in Kandi's financial statements, his objectivity as engagement quality reviewer was impaired. As a result, AWC failed to obtain concurring approvals of issuance from an engagement quality reviewer who had maintained objectivity during the Kandi Audits.

48. Albert Wong, despite being aware of Chung's dual roles, took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's engagement quality review violation by failing to determine that Chung's performance of these procedures impaired Chung's objectivity, in contravention of PCAOB Rule 3502.

**E. Albert Wong and the Firm Failed to Comply with Auditor Independence Requirements in the Kandi 2012 Audit**

49. PCAOB rules and standards require a registered public accounting firm and its associated persons to be independent of the firm's audit client throughout the audit and professional engagement period. That requirement includes an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB and all other independence criteria set out in the Commission's rules and regulations under the federal securities laws.<sup>45</sup>

50. Section 10A(g) of the Exchange Act provides that it shall be unlawful for a registered public accounting firm (and any associated person of that firm, to the extent

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<sup>43</sup> See AS No. 7 ¶¶ 1, 6.

<sup>44</sup> See AS No. 7 ¶ 7.

<sup>45</sup> See PCAOB Rule 3520, *Auditor Independence*; AU §220, *Independence*.

**ORDER**

determined appropriate by the Commission) to provide to an issuer, contemporaneously with the audit, certain non-audit services, including those involving management functions.<sup>46</sup>

51. Exchange Act Rule 10A-2 states that it shall be unlawful for an auditor not to be independent with respect to, among other requirements, the prohibited non-audit services of Commission Regulation S-X. Rule 2-01 of Regulation S-X provides an accountant is not independent if, at any point during the audit and professional engagement period, the accountant provides certain non-audit services for audit clients, including performing any decision-making, supervisory, or ongoing monitoring function for the audit client, or performing services that place the accountant in a position of being an advocate for the audit client.<sup>47</sup>

52. The independence requirements in Rule 2-01 of Regulation S-X, including those prohibiting certain non-audit services, apply to a registered public accounting firm performing services in connection with an engagement for which independence is required, and include any accounting firm with which the certified public accountant or public accountant is affiliated.<sup>48</sup> As the auditor of Kandi's 2012 financial statements, the Firm and its associated persons and entities were required to be independent of Kandi during the audit and professional engagement period. During the 2012 audit and professional engagement period, AWC LLP was an affiliate and associated entity of AWC, and Chung and Mui were partners and associated persons of AWC LLP. Thus, Mui, and Chung, who also served as the engagement quality reviewer during the Kandi 2012 Audit, were required to be independent of Kandi.

53. During the audit and professional engagement period of the Kandi 2012 Audit, Chung obtained from Kandi a Power-of-Attorney naming Mui as Kandi's attorney-in-fact for the purpose of representing Kandi in all matters with a New York State regulatory agency. Mui accepted the Power-of-Attorney from Kandi and proceeded to represent Kandi before that agency, which resulted in a reduction of a penalty from Kandi's failure to comply with certain state laws. In the fall of 2012, Mui resolved the matter and executed an offer of settlement with that agency on Kandi's behalf. These activities, in violation of applicable independence rules, impaired the independence of AWC and its associated persons, including Albert Wong, of Kandi, because AWC LLP

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<sup>46</sup> See Section 10A(g)(6) of the Exchange Act.

<sup>47</sup> See 17 C.F.R. § 210.2-01(b), (c)(4)(vi).

<sup>48</sup> See Rule 2-01(f)(1) and (2) of Regulation S-X; 17 CFR §210.2-01.

**ORDER**

and its associated persons, including Mui and Chung, were not independent during the audit and professional engagement period of the Kandi 2012 Audit.

54. As the engagement partner, Albert Wong was responsible for AWC's compliance with independence requirements. Although Albert Wong knew at the time of the Kandi 2012 Audit that Mui had accepted a Power-of-Attorney from Kandi in order to handle the New York State agency matter, he failed to evaluate whether Mui's activities on Kandi's behalf constituted prohibited non-audit services that would impair Mui's independence, as well as AWC's and its associated persons. Albert Wong took, or omitted to take, actions during the Kandi 2012 Audit, that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of independence requirements, in contravention of PCAOB Rule 3502.

**F. Albert Wong and the Firm Violated PCAOB Rules and Standards Related to Quality Control**

55. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.<sup>49</sup> PCAOB quality control standards require that a registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."<sup>50</sup> PCAOB quality control standards state that policies and procedures should be established to provide the firm with reasonable assurance that "personnel maintain independence ... in all required circumstances" and "that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."<sup>51</sup> Additionally, PCAOB quality control standards provide that policies and procedures "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control ... are suitably designed and are being effectively applied," and that "its system of quality control is effective."<sup>52</sup>

56. Throughout the relevant time period, the Firm failed to have in place procedures providing reasonable assurance that the work performed by the engagement personnel met applicable professional standards, regulatory requirements,

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<sup>49</sup> PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>50</sup> QC § 20.01.

<sup>51</sup> QC §§ 20.09-.10, and 20.17.

<sup>52</sup> QC § 20.20; see also QC § 30.03.

**ORDER**

and the firm's standards of quality.<sup>53</sup> As described above, Firm personnel failed to perform procedures necessary to comply with PCAOB standards and regulatory requirements on multiple instances during the course of the audits described herein, including that Firm personnel failed to comply with PCAOB audit documentation requirements.

57. The Firm failed to adopt and implement appropriate quality control policies and procedures governing the Firm's independence with respect to its issuer audit clients. For example, the Firm failed to maintain its independence in at least one audit.

58. The Firm also failed to establish and implement quality control policies and procedures to provide reasonable assurance that engagement quality reviews were obtained by reviewers who were independent and maintained objectivity in performing the review.

59. Further, the Firm's system of quality control also failed to provide reasonable assurance that engagement personnel complied with PCAOB audit documentation requirements.

60. Overall, the Firm's monitoring procedures, taken as a whole, did not enable the Firm to obtain reasonable assurance that its system of quality control was effective. The Firm did not take appropriate steps to monitor whether its associated persons were, in fact, complying with policies and procedures related to engagement performance.

61. Albert Wong, as the Firm's sole-proprietor, had responsibility for the development, maintenance, communication, and monitoring of the Firm's quality control policies and procedures. In connection with that role, Albert Wong took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB 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 the Respondents' Offers. Accordingly, it is hereby ORDERED that:

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<sup>53</sup> QC § 20.17-.19.

**ORDER**

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), AWC (CPA) Limited, WONG Chi Wai, CPA, and WONG Fei Cheung, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration AWC (CPA) Limited is revoked;
- C. After two (2) years from the date of the Order, AWC (CPA) Limited may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of US \$10,000 is imposed jointly and severally upon AWC (CPA) Limited and WONG Chi Wai. 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. AWC (CPA) Limited shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies AWC (CPA) Limited, as a Respondent in this proceeding, sets forth the title and PCAOB Release Number of this proceeding, 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.
- E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), WONG Chi Wai, CPA, is barred from being 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);<sup>54</sup>

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<sup>54</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to WONG Chi Wai. Section 105(c)(7)(B) of the Act provides that "[i]t shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a

**ORDER**

- F. After two (2) years from the date of this Order, WONG Chi Wai may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- G. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of US \$10,000 is imposed upon WONG Chi Wai. 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. WONG Chi Wai shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies WONG Chi Wai, as a Respondent in this proceeding, sets forth the title and PCAOB Release Number of this proceeding, 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;
- H. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), WONG Fei Cheung, CPA, is barred from being 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);<sup>55</sup>

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financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

<sup>55</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to WONG Fei Cheung. Section 105(c)(7)(B) of the Act provides that "[i]t shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

**ORDER**

- I. After one (1) year from the date of this Order, WONG Fei Cheung may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and
- J. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of US \$5,000 is imposed upon WONG Fei Cheung. 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. WONG Fei Cheung shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies WONG Fei Cheung, as a Respondent in this proceeding, sets forth the title and PCAOB Release Number of this proceeding, 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

May 18, 2016



**ORDER**

pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against AWC LLP, Chung and Mui (collectively, "Respondents").

**II.**

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (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 them and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (the "Order") as set forth below.<sup>2</sup>

**III.**

On the basis of Respondents' Offers, the Board finds<sup>3</sup> that:

**A. Respondents**

1. **AWC LLP** (the "Firm") is and, at all relevant times, was a limited liability partnership organized under New York law and headquartered in New York, New York.<sup>4</sup> AWC LLP is licensed by the New York State Education Department (License No.

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<sup>2</sup> The findings herein are made pursuant to the Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

<sup>3</sup> 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 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.

<sup>4</sup> In October 2015, AWC LLP changed its legal name from Albert Wong & Co. LLP.



## ORDER

67333) to practice public accountancy. At all relevant times, AWC LLP was an affiliate and an associated entity of AWC (CPA) Limited, the auditor of the consolidated financial statements of Kandi Technologies Group, Inc. ("Kandi") for the years ended December 31, 2010, December 31, 2011, and December 31, 2012 (collectively, the "Kandi Audits").<sup>5</sup> AWC LLP is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Mun Leung CHUNG**, also known as Clive Chung ("Chung"), 55, of New York, New York and the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), is a certified public accountant licensed by New York State Education Department (License No. 076306) and is a certified public accountant (practising) registered with the Hong Kong Institute of Certified Public Accountants ("HKICPA") (License No. A37788). Chung is, and at all relevant times was, the managing partner of AWC LLP and responsible for AWC LLP's system of quality control. Chung was the engagement quality reviewer for each of the Kandi Audits. Chung is, and at all relevant times was, 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).

3. **Lam Shan MUI** ("Mui"), 67, of New York, New York, is a certified public accountant licensed by New York State Education Department (License No. 072623). Mui is, and at all relevant times was, a partner of AWC LLP 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 Entity**

4. **AWC (CPA) Limited** ("AWC") is a public accounting firm incorporated in Hong Kong, and registered with the HKICPA as a certified public accounting firm (License No. 1186). AWC is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB Rules.<sup>6</sup> At all relevant times, AWC was

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<sup>5</sup> At all relevant times, Kandi was a Delaware corporation with its primary operations in the People's Republic of China. Kandi's public filings disclose that it was a manufacturer of electric vehicles, go-carts, all-terrain and other specialty vehicles. At all relevant times, Kandi was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

<sup>6</sup> In January 2015, AWC (CPA) Limited succeeded to the registration status of its predecessor, Albert Wong & Co., a Hong Kong sole proprietorship.

**ORDER**

Kandi's external auditor and issued audit reports expressing unqualified opinions on Kandi's consolidated financial statements for 2010, 2011 and 2012. At all relevant times, AWC was an affiliate and an associated entity of AWC LLP.<sup>7</sup>

**C. Summary**

5. This matter concerns Respondents' failure to comply with Section 10A(g) of the Exchange Act and Exchange Act Rule 10A-2, and PCAOB rules and standards that require a registered public accounting firm, its associated entities, and their associated persons be independent of the firm's audit client throughout the audit and professional engagement period. Specifically, with respect to AWC's audit of Kandi's December 31, 2012 financial statements ("Kandi 2012 Audit"), Respondents were not independent during the audit and professional engagement period because Mui performed prohibited non-audit services on Kandi's behalf by accepting a Power-of-Attorney from Kandi and representing Kandi in a matter before a New York State regulatory agency.

6. In addition, Chung failed to comply with PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"). By providing his concurring approval of the issuance of AWC's audit reports for the Kandi audits while acting as an active member of the engagement team, he failed to maintain objectivity. In the Kandi 2012 Audit, Chung was not independent of Kandi because his partner, Mui, performed prohibited non-audit services for Kandi. Chung also failed to comply with documentation requirements for audit services he performed in the Kandi Audits.

7. This matter also concerns AWC LLP's violations of PCAOB quality control standards. Specifically, the Firm failed to establish policies and procedures to provide it with reasonable assurance that personnel maintain independence and failed to establish monitoring procedures sufficient to provide the Firm with reasonable assurance that its policies and procedures were suitably designed and were being effectively applied.<sup>8</sup> Chung, as the managing partner and person responsible for

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<sup>7</sup> See AWC (CPA) Limited, WONG Chi Wai, CPA, and WONG Fei Cheung, CPA, PCAOB Release No. 105-2016-016 (May 18, 2016).

<sup>8</sup> See QC §§ 20.06, .09, .20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*; QC § 30.03, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

**ORDER**

designing, implementing and maintaining the Firm's system of quality control, took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

**D. Respondents' Violations of PCAOB Rules and Standards, the Exchange Act, and Independence Standards**

8. 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.<sup>9</sup> PCAOB rules and standards also require that a registered public accounting firm and its associated persons to be independent of the firm's audit client throughout the audit and professional engagement period.<sup>10</sup> A registered public accounting firm or associated person's independence obligation with respect to an audit client that is an issuer encompasses not only an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB, but also an obligation to satisfy all other independence criteria applicable to the engagement, including the independence criteria set out in the rules and regulations of the Commission under the federal securities laws.<sup>11</sup>

9. Section 10A(g) of the Exchange Act provides that it shall be unlawful for a registered public accounting firm (and any associated person of that firm, to the extent determined appropriate by the Commission) to provide to an issuer, contemporaneously with the audit, certain non-audit services, including those involving management functions.<sup>12</sup>

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<sup>9</sup> PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and PCAOB Rule 3200T, *Interim Auditing Standards*. All references to PCAOB standards are to the versions of those standards in effect at the time of the audits.

<sup>10</sup> See PCAOB Rule 3520, *Auditor Independence*, and AU § 220, *Independence*.

<sup>11</sup> See PCAOB Rule 3520, Note 1.

<sup>12</sup> See Section 10A(g)(6) of the Exchange Act.

**ORDER**

10. Exchange Act Rule 10A-2 states that it shall be unlawful for an auditor not to be independent with respect to, among other requirements, the prohibited non-audit services of Commission Regulation S-X. Rule 2-01 of Regulation S-X provides an accountant is not independent if, at any point during the audit and professional engagement period, the accountant provides certain non-audit services for audit clients, including performing any decision-making, supervisory, or ongoing monitoring function for the audit client, or performing services that place the accountant in a position of being an advocate for the audit client.<sup>13</sup>

11. The independence requirements in Rule 2-01 of Regulation S-X apply to a registered public accounting firm performing services in connection with an engagement for which independence is required, including its associated entities, and any accounting firm with which the certified public accountant or public accountant performing services is affiliated.<sup>14</sup>

12. 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 a violation by that firm of the Act, rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.<sup>15</sup>

13. As described below, Respondents failed to comply with PCAOB rules and standards, as well as applicable independence requirements, during the audit and professional engagement period of the Kandi 2012 Audit. In addition, Chung failed to comply with PCAOB rules and standards during the Kandi Audits.

Independence Violations

14. During the audit and professional engagement period of the Kandi 2012 Audit, AWC LLP, as an affiliate and associated entity of AWC, was required to be

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<sup>13</sup> See 17 C.F.R. § 210.2-01(b), (c)(4)(vi).

<sup>14</sup> See Rule 2-01(f)(1) and (2) of Regulation S-X; 17 CFR §210.2-01. See also PCAOB Rule 3520.

<sup>15</sup> PCAOB Rule 3502.

**ORDER**

independent of Kandi. AWC LLP's partners and associated persons were also required to be independent of Kandi.

15. During the audit and professional engagement period of the Kandi 2012 Audit, Chung obtained from Kandi a Power-of-Attorney naming Mui as Kandi's attorney-in-fact for the purpose of representing Kandi in all matters with a New York State regulatory agency. Mui accepted the Power-of-Attorney from Kandi and proceeded to represent Kandi before that agency, which resulted in a reduction of a penalty from Kandi's failure to comply with certain state laws. In the fall of 2012, Mui resolved the matter and executed an offer of settlement with that agency on Kandi's behalf.

16. Because of these actions, Mui was not independent of Kandi during the 2012 audit and professional engagement period. Furthermore, as a result of these actions, AWC LLP and Chung were not independent of Kandi during the 2012 audit and professional engagement period, in violation of PCAOB rules and standards, the Exchange Act, and Exchange Act rules.<sup>16</sup>

17. Mui took, or omitted to take, actions during the Kandi 2012 Audit, that he knew, or was reckless in not knowing, would directly and substantially contribute to AWC LLP's violations of PCAOB rules and standards, in contravention of PCAOB Rule 3502.

Chung Failed to Comply with Engagement Quality Review and Documentation Requirements during the Kandi Audits

18. AS No. 7, *Engagement Quality Review*, provides that an engagement quality review and concurring approval of issuance are required for each engagement, and the engagement quality reviewer must be independent of the company and perform the review with integrity, and maintain objectivity in performing the review.<sup>17</sup> To maintain objectivity, the engagement quality reviewer should not make decisions on behalf of the engagement team or assume any of the responsibilities of the engagement team.<sup>18</sup> In

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<sup>16</sup> See Section 10A(g)(6) of the Exchange Act, Exchange Act Rule 10A-2, PCAOB Rule 3520, AU § 220; and AS No. 7 ¶ 6, *Engagement Quality Review*.

<sup>17</sup> See AS No. 7 ¶¶ 1, 6.

<sup>18</sup> See AS No. 7 ¶ 7.

**ORDER**

addition, the engagement quality reviewer must comply with PCAOB audit documentation requirements.<sup>19</sup>

19. Throughout the Kandi Audits, Chung served as the engagement quality reviewer. While serving in this role, Chung also was concurrently responsible in those same audits for performing audit procedures on the deferred tax balances and related tax disclosures in Kandi's financial statements which impaired his objectivity as the engagement quality reviewer in violation of AS No. 7.

20. In addition, as the engagement quality reviewer of the Kandi 2012 Audit, Chung knew that he and AWC LLP were required to be independent of Kandi. Yet, as previously described, Chung obtained the Power-of-Attorney from Kandi for Mui and failed to evaluate whether Mui's activities on Kandi's behalf constituted prohibited non-audit services that would impair the independence of AWC LLP and himself. Nevertheless, Chung provided concurring approval of issuance of AWC's audit report on the Kandi 2012 financial statements even though he and AWC LLP were not independent of Kandi during the audit and professional engagement period.

21. AS No. 7 states that documentation of an engagement quality review should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand the procedures performed by the engagement quality reviewer, the documents reviewed, and the date concurring approval of issuance was given.<sup>20</sup> While serving as the engagement quality reviewer during the Kandi Audits, Chung failed to document certain of the procedures he performed and, on numerous occasions, Chung reviewed the engagement team's documentation without evidencing his review in the audit documentation, in violation of AS No. 7.

22. In addition, when Chung was assuming certain responsibilities of the engagement team, he failed to comply with audit documentation requirements. Specifically, Chung failed to document audit procedures he performed on the deferred tax balances and related tax disclosures.<sup>21</sup>

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<sup>19</sup> See AS No. 7 ¶¶ 19–21.

<sup>20</sup> AS No. 7 ¶ 19.

<sup>21</sup> See AS No. 3 ¶¶ 4–9.

**ORDER**

**E. Chung and the Firm Violated PCAOB Rules and Standards Related to Quality Control**

23. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.<sup>22</sup> PCAOB quality control standards require that a registered public accounting firm "shall have a system of quality control for its accounting and auditing practice."<sup>23</sup> PCAOB quality control standards state that policies and procedures should be established to provide the firm with reasonable assurance that "personnel maintain independence in all required circumstances" and "that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."<sup>24</sup> PCAOB quality control standards also provide that policies and procedures "should be established to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control ... are suitably designed and are being effectively applied," and that "its system of quality control is effective."<sup>25</sup>

24. Throughout the relevant time period, AWC LLP failed to have policies and procedures providing reasonable assurance that its personnel maintain independence. For example, AWC LLP's quality control policies and procedures failed to address prohibited non-audit services and made no reference whatsoever to Rule 2-01 of Commission Regulation S-X or the provisions therein. Further, AWC LLP policies and procedures failed to provide any guidance to its personnel with respect to independence requirements as an affiliate and associated entity of AWC.

25. AWC LLP also failed to establish monitoring procedures sufficient to enable it to obtain reasonable assurance that its system of quality control was effective.<sup>26</sup> Indeed, the Firm had no monitoring procedures at the time and relied on its partners to monitor whether its associated persons, including themselves, were complying with firm policies and procedures.

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<sup>22</sup> PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>23</sup> QC § 20.01.

<sup>24</sup> QC §§ 20.09-.10, and 20.17.

<sup>25</sup> QC § 20.20; see also QC § 30.03.

<sup>26</sup> QC § 30.02.

**ORDER**

26. Chung, as AWC LLP's managing partner, was responsible for the design, development, implementation, maintenance and monitoring of AWC LLP's quality control policies and procedures. Yet Chung took, or omitted to take, actions that he knew, or was reckless in not knowing, would directly and substantially contribute to AWC LLP's violation of PCAOB quality control standards, in contravention of PCAOB 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 the Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), AWC LLP, Mun Leung CHUNG, CPA, and Lam Shan MUI, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of AWC LLP is suspended for a period of one (1) year;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Mun Leung CHUNG, CPA, is barred from being 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);<sup>27</sup>

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<sup>27</sup> As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Mun Leung CHUNG. Section 105(c)(7)(B) of the Act provides that "[i]t shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

**ORDER**

- D. After two (2) years from the date of this Order, Mun Leung CHUNG, CPA may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- E. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$5,000 is imposed upon Mun Leung CHUNG. 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. Mun Leung CHUNG shall pay this civil money penalty within 10 days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by Board staff; or (b) United States postal money order, certified check, bank cashier's check or bank money order; (c) made payable to the Public Company Accounting Oversight Board; (d) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006; and (e) submitted under a cover letter which identifies Mun Leung CHUNG, as a Respondent in this proceeding, sets forth the title and PCAOB Release Number of this proceeding, 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 the Office of the Secretary, Attention: Phoebe Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006;
- F. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one (1) year from the date of the issuance of this Order, Lam Shan MUI, CPA's role in an "audit" as that term is defined in Section 110(1) of the Act, shall be restricted as follows: MUI shall not serve as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10, *Supervision of the Audit Engagement*, or (2) exercise authority either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker or dealer; and

**ORDER**

- G. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Lam Shan MUI, CPA, is required to complete, within one (1) year from the date of the issuance of this Order, ten (10) hours of continuing professional education ("CPE") in subjects directly related to ethics with a minimum of six (6) hours related to PCAOB and Commission auditor independence requirements (such hours shall be in addition to, and shall not be counted in, the CPE that he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

May 18, 2016