2022 Inspection
PricewaterhouseCoopers

(Headquartered in Hong Kong Special Administrative Region of the People's Republic of China)

March 28, 2023

<u>THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT</u>

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2022 INSPECTION

In the 2022 inspection of PricewaterhouseCoopers, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the China Securities Regulatory Commission, the Ministry of Finance of the People's Republic of China, and the Accounting and Financial Reporting Council of Hong Kong.

We selected for review four audits of issuers with fiscal years generally ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2022 INSPECTION

The following information provides an overview of our 2022 inspection, which was our first inspection of this firm. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2022
Firm data	
Total issuer audit clients in which the firm was the principal auditor	3
Total issuer audits in which the firm was not the principal auditor	27
Total engagement partners on issuer audit work[1]	25
Audits reviewed	
Total audits reviewed[2]	4
Audits in which the firm was the principal auditor	2
Audits in which the firm was not the principal auditor	2
Integrated audits of financial statements and internal control over financial reporting (ICFR)	4
Audits with Part I.A deficiencies	3
Percentage of audits with Part I.A deficiencies	75%

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

[2] The population from which audits are selected for review includes both audits for which the firm was the principal auditor and those where the firm was not the principal auditor but played a role in the audit.

was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2022 inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2022	
Audit area	**Audits reviewed**
Cash and cash equivalents	4
Revenue and related accounts	3
Goodwill and intangible assets	1
Significant transactions	1
Inventory	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, (1) at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR or (2) in audit(s) in which it was not the principal auditor, had not obtained sufficient appropriate audit evidence to fulfill the objectives of its role in the audit.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include audits where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes audits where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes audits where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work (1) supporting the firm's opinion(s) on the issuer's financial statements and/or ICFR and (2) in audit(s) in which it was not the principal auditor, to fulfill the objectives of its role in the audit.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts**, a **Significant Account**, and **Significant Transactions**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk, **and Related Accounts**:

The issuer used multiple information technology (IT) systems to initiate, process, and record transactions related to revenue and related accounts. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by these IT systems. As a result of the following deficiencies in the firm's testing of IT general controls (ITGCs), the firm's testing of these automated and IT-dependent controls was not sufficient. (AS 2201.46)

- The firm selected for testing controls over administrative access and monitoring but did not perform procedures, beyond inquiry, to test (1) certain of these controls and (2) an aspect of another of these controls. (AS 2201.42 and .44)

- The firm did not identify and test any controls over certain automated functionality related to change management and user access. (AS 2201.39)

- The firm selected for testing controls that included the issuer's review of whether access was appropriate for transferred employees. The firm did not evaluate the specific review procedures that the control owners performed to assess this access. (AS 2201.42 and .44)

- The firm selected for testing controls over change management and user access but, for certain of these controls, did not perform procedures, beyond inquiry, to test, or test any controls over, (1) the completeness of the population of items from which it made its selections for testing or (2) the accuracy of information the firm used in its testing. Further, for another of these change management controls, when testing the completeness of the population from which the firm made its selections for testing, the firm did not test all relevant sources of changes. (AS 1105.10)

With respect to the firm's testing of controls with an automated component:

- The firm selected for testing various automated controls over certain revenue and related accounts. The firm's testing of these automated controls using a sample of only one instance of the controls' operation was not sufficient because the firm did not test the programming of these controls or perform other procedures that would have provided sufficient appropriate audit evidence that these automated controls were designed and operating effectively. (AS 2201.46)

- For one type of revenue, the firm selected for testing a control that consisted of the automated calculation and recording of revenue and related accounts and a manual review of the accuracy of the data used in the operation of this control. The firm did not test the manual aspect of this control. (AS 2201.42 and .44)

- For certain revenue, the firm did not identify and test any controls over certain inputs and assumptions used by the issuer to recognize revenue. (AS 2201.39)

The firm selected for testing controls over the automated transfer or reconciliation of data between systems. The following deficiencies were identified:

- Certain of these controls included the manual resolution of any errors in this data transfer. The firm did not test the operating effectiveness of the manual aspect of these controls. (AS 2201.44)

- For certain other of these controls, the firm did not identify and test any controls over the investigation and resolution of identified variances. (AS 2201.39)

- For certain of these controls, which operated across multiple systems, the firm’s approach of testing one instance of the controls was based on an unsupported assumption that all systems were configured the same way. (AS 2201.46)

With respect to the firm’s testing of manual controls:

- The firm selected for testing various controls related to the issuer’s reviews of certain revenue and related accounts. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

- The firm selected for testing controls that consisted of the issuer’s reviews of certain contracts. The firm did not perform procedures, beyond inquiry, to test, or test any controls over, the completeness of the population of contracts from which it made its selections for testing. (AS 1105.10)

- For certain other contracts, the firm did not identify and test any controls that addressed whether relevant terms and conditions were identified and evaluated for appropriate revenue recognition. (AS 2201.39)

- For one type of revenue, the firm did not identify and test any controls that addressed whether the performance obligation was satisfied before revenue was recognized. (AS 2201.39)

With respect to the firm’s substantive testing:

- The firm performed tests of details for a sample of certain revenue and related accounts. The firm did not perform any procedures to verify that each of the individual transactions from the respective revenue and related accounts had the opportunity to be selected for testing. (AS 2315.24)

- The sample sizes the firm used in certain of its substantive procedures to test revenue were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm’s control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

- For certain revenue, the firm did not perform procedures to evaluate the validity of the inputs used by the issuer to recognize revenue, beyond identifying the source of the inputs. Further, the firm did not perform procedures to test the prices the issuer used to recognize this revenue, beyond testing whether the price charged was below a maximum allowed price. (AS 2301.08 and .13)

- For certain other revenue, the firm did not test whether revenue was recognized in accordance with relevant contract terms and conditions. (AS 2301.08)

- For certain other revenue, the firm obtained the issuer's revenue recognition schedule and recalculated a sample of items. The firm did not consider the different revenue recognition methods when recalculating its sample. (AS 2301.08)

- The firm did not perform any procedures to test certain related accounts. (AS 2301.08)

- The firm did not perform procedures to test, or (as discussed above) sufficiently test controls over, the accuracy and completeness of certain system-generated data or reports that (1) the firm used to make its selections for testing and (2) the firm used in its substantive testing. (AS 1105.10)

The issuer engaged an external specialist to assist in developing an estimate of a related account. The firm selected for testing a control that consisted of the issuer's review of the estimate, including the company's specialist's report. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the accuracy and completeness of certain data used in developing the estimate. (AS 2201.39)

The firm did not perform procedures to test the estimate, beyond performing certain recalculations and obtaining the company's specialist report. Further, the firm did not perform any procedures to use the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2501.07)

With respect to a **Significant Account**, for which the firm identified a significant risk:

The firm selected for testing controls that consisted of the issuer's review of the reasonableness of certain significant assumptions used by the issuer in developing an estimate related to this significant account. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm's approach for substantively testing the above estimate related to this significant account was to test the issuer's process. The firm did not sufficiently evaluate the reasonableness of certain significant assumptions, because it did not evaluate whether the Issuer had a reasonable basis for the assumptions. Further, in evaluating the reasonableness of these significant assumptions, the firm did not take into account the issuer's ability to carry out its intended courses of action, beyond observing that the assumptions were directionally consistent with the issuer's historical information and other information. (AS 2501.16 and .17)

The firm selected for testing a control that consisted of the issuer's review of an aspect of the accounting treatment for this significant account. The firm did not evaluate the specific review procedures that the control owner performed to evaluate whether the accounting treatment was in accordance with GAAP. (AS 2201.42 and .44)

The firm did not perform any procedures to evaluate the issuer's conclusion that this aspect of the accounting treatment was in accordance with GAAP. (AS 2301.08)

With respect to **Significant Transactions**:

The firm selected for testing a control that consisted of the issuer's review of the initial accounting treatment of significant transactions. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the review of the subsequent accounting treatment of these significant transactions. (AS 2201.39)

In addition, the firm did not perform procedures to test the issuer's conclusion regarding the subsequent accounting treatment of the significant transactions, beyond reviewing contractual agreements and certain issuer information. (AS 2301.08)

In performing procedures to evaluate the accounting treatment of these transactions, the firm used the work of the company's specialist as audit evidence. The firm did not perform any procedures to use the work of the company's specialist as audit evidence. (AS 1105.A1 - .A10; AS 2301.08)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement and ICFR audits related to **Revenue and Related Accounts**, **Goodwill**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue and Related Accounts** and **Goodwill**:

The firm identified certain deficiencies in the control environment. The firm, however, did not consider the effect of these deficiencies in other areas of the audit in (1) forming conclusions about the design and operating effectiveness of the controls in those areas and (2) determining the level of control reliance used in the design of its substantive procedures in those areas. (AS 2201.42, .44, and .B6; AS 2301.34)

With respect to **Revenue**, for which the firm identified a fraud risk, **and Related Accounts**, both of which were affected by the audit deficiency related to the control environment discussed above:

The issuer recognized revenue at the time services were provided to its customers. The following deficiencies were identified:

- The firm selected for testing controls that consisted of the issuer's verification with its customers of the services provided and amounts to be invoiced. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

- The firm did not identify and test any controls over (1) the accuracy and completeness of reports generated from the issuer's IT systems and (2) the relevance and reliability of information obtained from external sources that the control owners used in the operation of these controls. (AS 2201.39)

- The firm did not identify and test any controls over the application of cash receipts to customer accounts. (AS 2201.39)

To test revenue and related accounts, the firm sent positive confirmation requests to the issuer's customers and performed certain other substantive procedures. The following deficiencies were identified:

- For one response returned without exception, in which the customer indicated its agreement to the amounts invoiced by the issuer during the year, the firm did not perform any procedures to test whether the issuer had satisfied its performance obligations for the amounts invoiced. (AS 2301.08 and .13)

- The firm did not evaluate the relevance and reliability of information obtained from external sources it used in its testing. (AS 1105.04 and .06)

- The firm did not perform procedures to test, or (as discussed above) test any controls over, the accuracy and completeness of reports generated from the issuer's IT systems that it used in its testing. (AS 1105.10)

- The firm did not perform any procedures to evaluate certain selected revenue transactions. (AS 2301.08 and .13)

The sample sizes the firm used in certain of its substantive procedures to test revenue and related accounts were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

The firm did not identify and test any controls over the issuer's estimates of variable consideration included in the transaction price. (AS 2201.39) In addition, the firm did not perform procedures to test the issuer's estimates of variable consideration that it expects to ultimately include in the transaction price, beyond testing the amounts the issuer invoiced to its customers during the year. (AS 2501.07)

The firm selected for testing a control that consisted of the issuer's review of the method and certain significant assumptions that were used by the issuer to develop another estimate of a related account. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the appropriateness of the method and the reasonableness of certain significant assumptions that were used. (AS 2201.42 and .44)

The firm did not perform any procedures to evaluate whether the method used by the issuer to develop this other estimate was (1) in conformity with the requirements of the applicable financial reporting framework and (2) appropriate for the nature of the related account, taking into account its understanding of the issuer and its environment. (AS 2501.10)

The firm's approach for substantively testing certain significant assumptions related to this other estimate was to develop an expectation, using model analyses and information provided by an auditor-employed specialist, for comparison to the issuer's significant assumptions. The firm did not demonstrate that it had a reasonable basis for its expectation of the significant assumptions because it did not evaluate the relevance and reliability of certain external data obtained and used by the auditor-employed specialist in developing its expectations. (AS 1105.04 and .06; AS 2501.16) In addition, the firm did not sufficiently evaluate the work of the auditor-employed specialist and identify that the auditor-employed specialist's work did not provide sufficient appropriate audit evidence, because it did not perform procedures to address limitations set forth by the auditor-employed specialist. (AS 1201.C6 and .C7)

With respect to **Goodwill**, which was affected by the audit deficiency related to the control environment discussed above:

The issuer performed a quantitative assessment to test its goodwill for impairment and engaged an external specialist to determine the fair value of its reporting units at year end. The firm selected for testing a control that consisted of the issuer's review of the significant assumptions that were developed and used by the company's specialist to determine the fair value of the issuer's reporting units. The firm did not evaluate the specific review procedures that the control owners performed to evaluate the reasonableness of those significant assumptions. (AS 2201.42 and .44) In addition, the firm did not identify and test any controls over the reasonableness of significant assumptions developed by the issuer that were used by the company's specialist to determine the fair value of the issuer's reporting units. (AS 2201.39)

The firm's approach for substantively testing the issuer's quantitative goodwill assessment was to test the issuer's process. For one reporting unit, the firm did not perform any procedures to evaluate whether the issuer had a reasonable basis for certain significant assumptions it developed. (AS 2501.16) In addition, the following deficiencies were identified for another reporting unit:

- The firm did not sufficiently evaluate the relevance of certain data used by the company's specialist to develop a significant assumption, because the firm did not consider certain of the issuer's business objectives. (AS 1105.A8a)

- The firm did not perform any procedures to evaluate the reasonableness of a significant assumption developed by the company's specialist. (AS 1105.A8b)

With respect to **Journal Entries**, for which the firm identified fraud risks:

The firm did not perform sufficient procedures to identify and select journal entries for testing to address the risks of management override identified by the firm, because the firm did not use accurate information as the basis for the test. (AS 2401.61)

Issuer C – Energy

Type of audit and related areas affected

In our review of an audit in which the firm played a role but was not the principal auditor, we identified deficiencies in connection with the firm's role in the financial statement and ICFR audits related to **Revenue**, **Cost of Sales**, **Cash**, and **Journal Entries**.

Description of the deficiencies identified

With respect to **Revenue** and **Cost of Sales**:

The issuer used an IT application to process revenue and cost of sales transactions. In its testing of controls over these accounts, the firm tested various automated and IT-dependent manual controls that used data and reports generated or maintained by this application. As a result of the following deficiencies in the firm's testing of ITGCs for this application, the firm's testing of these automated and IT-dependent controls was not sufficient. (AS 2201.46)

- The firm selected for testing a control that consisted of the issuer's review of segregation of duties. The firm did not evaluate the specific review procedures that the control owner performed to identify the population of individuals with administrative access. (AS 2201.42 and .44)

- The firm selected for testing a control that consisted of the issuer's review of user access. The firm did not evaluate the review procedures that the control owner performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44) In addition, the firm did not perform procedures to test, or test any controls over, the completeness of the population of users with access to certain revenue transactions. (AS 1105.10)

- The firm selected for testing a control over new, modified, and terminated user access. The firm identified deviations in the operation of this control but did not determine the effect of these deviations on the operating effectiveness of this control. (AS 2201.48)

- The firm selected for testing a control over change management but did not perform procedures to test, or test controls over, the completeness of the population of changes from which it made its selections for testing. (AS 1105.10)

The firm selected for testing certain controls that consisted of the issuer's review of revenue and cost of sales. The firm did not evaluate the review procedures that the control owners performed, including the procedures to identify items for follow-up and the procedures to determine whether those items were appropriately resolved. (AS 2201.42 and .44)

The firm selected for testing a control that included the automated transfer of data between systems and the manual resolution of any errors in this data transfer. The firm did not test the manual aspect of this control. (AS 2201.42 and .44)

The sample sizes the firm used in certain of its substantive procedures to test revenue and cost of sales were too small to provide sufficient appropriate audit evidence because these procedures were designed based on a level of control reliance that was not supported due to the deficiencies in the firm's control testing discussed above. (AS 2301.16, .18, and .37; AS 2315.19, .23, and .23A)

With respect to **Cash**:

The firm sent positive confirmation requests for cash. The firm did not identify certain conditions indicating that certain bank confirmation responses, or parts thereof, might not be authentic or might not have come from the purported source. As a result, the firm did not perform additional audit procedures to respond to those conditions and evaluate their effect, if any, on the other aspects of the audit. (AS 1105.09)

With respect to **Journal Entries**, for which the firm identified fraud risks:

The firm identified fraud criteria for journal entries and obtained a listing of all journal entries that met the criteria. The firm did not perform sufficient substantive procedures to test those journal entries because, other than inquiries of management, it limited its procedures to one journal entry without having an appropriate rationale for limiting its testing to that journal entry. (AS 2401.61)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s) or fulfill the objectives of its role in the audit(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In one of four audits reviewed, the firm did not include all relevant work papers in the final set of audit documentation it was required to assemble. In this instance, the firm was non-compliant with AS 1215, *Audit Documentation.*

- In two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to the name, location, and planned responsibilities of other accounting firms or other persons not employed by the firm that performed audit procedures in the audit. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one audit, the firm did not make a required communication to the issuer's audit committee related to its basis for determining that it could serve as the principal auditor as significant parts of the audit were performed by other auditors. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of four audits reviewed, the firm did not evaluate certain factors when determining whether any of the identified and assessed risks of material misstatement related to a significant account and disclosure were significant risks. In this instance, the firm was non-compliant with AS 2110, *Identifying and Assessing Risks of Material Misstatement*.

- In one of two audits reviewed, the firm communicated in writing to the audit committee that there were no significant deficiencies identified during the audit, even though an ICFR audit does not provide assurance that all deficiencies less severe than a material weakness have been identified. In this instance, the firm was non-compliant with AS 2201*, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements*.

- In one of two audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated to the issuer’s audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor’s report.

- In one audit, the firm’s report on Form AP omitted information related to the participation in the audit by an other accounting firm. In this instance, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*.

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes instances of potential non-compliance that we identified, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(1) of Regulation S-X, certain financial relationships impair an accountant's independence. We identified multiple instances for two issuers in two audits reviewed where certain of the firm's personnel had a financial relationship, other than an investment in an audit client, in which this circumstance appears to have occurred.

Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm’s system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm’s system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report’s description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm’s system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm’s system of quality control, to the extent any are identified. If a firm does not address to the Board’s satisfaction any criticism of, or potential defect in, the firm’s system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

pwc

羅兵咸永道

Mr. George R. Botic
Director – Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington
DC 20006 USA

20 March 2023

Dear Mr. Botic

Re: Response to the Draft Report on the 2022 Inspection of PricewaterhouseCoopers Hong Kong (the "Firm")

On behalf of the Firm, we are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2022 Inspection of our Firm dated February 15, 2023 ("Draft Report").

We recognise the inspection process provides a valuable opportunity to improve the quality of our audits. We actively use feedback from internal and external review processes in our ongoing efforts to continuously improve audit quality, and we will address the matters raised in the Draft Report in a thorough and thoughtful way. We continue to support the PCAOB in its mission and are committed to furthering the public interest through the preparation of informative, accurate and independent audit reports.

We have evaluated each of the Draft Report observations set forth in *Part I.A: Audits with Unsupported Opinions* and *Part I.B: Other Instances of non-Compliance with PCAOB Standards or Rules,* and with respect to those observations have taken appropriate actions under both PCAOB standards and our policies. Our evaluation included those steps we considered necessary to comply with PCAOB AS 2901, *Consideration of Omitted Procedures After the Report Date*. Our evaluation of all observations did not result in any changes to our audit reports.

With respect to the observations under *Part I.C: Independence*, the Firm is committed to maintaining a system of quality control that provides reasonable assurance with respect to compliance with applicable regulatory requirements. We appreciate the dialogue with the PCAOB with respect to this important matter and look forward to continuing that dialogue and discussing our perspectives with the PCAOB, as we believe this dialogue will be of assistance to the continuing evaluation and conclusions with respect to these matters. We remain encouraged that our ongoing dialogue with the PCAOB will support the Firm's commitment to the maintenance of reasonable and effective quality control systems in this area.

We would be pleased to discuss any aspects of our response or any other questions you may have.

Yours sincerely

Raymund Chao
Chairman
PricewaterhouseCoopers

Daniel Li
Assurance Leader
PricewaterhouseCoopers

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