UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 95887 / September 23, 2022

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4339 / September 23, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-21142

In the Matter of **Friedman LLP,** **Respondent.**	**ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 4C AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Friedman LLP ("Friedman" or "Respondent") pursuant to Sections 4C[1] and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.[2]

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[1] Section 4C provides, in relevant part, that:

> The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others; (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

[2] Rule 102(e)(1)(ii) provides, in pertinent part, that:

> The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement ("Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Public Administrative and Cease-And-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules Of Practice, Making Findings, and Imposing Remedial Sanctions and a Cease-And-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[3] that:

Summary

1. This matter involves serial violations of the federal securities laws and improper professional conduct by Respondent in conducting multi-year audits of two public issuers, iFresh, Inc. and Issuer A (together, the "Reporting Companies"). iFresh, Inc. retained Friedman to audit its financial statements for the fiscal years ended March 31, 2017 through 2020. Issuer A retained Friedman to audit its financial statements for the years ended December 31, 2016 through 2020.

2. Respondent failed to comply with the standards of the Public Company Accounting Oversight Board ("PCAOB") in conducting audits of the Reporting Companies when it did not: (1) design and perform procedures specifically designed to be responsive to assessed risks; (2) perform procedures to identify related party transactions; (3) obtain sufficient appropriate audit evidence; (4) respond to fraud risks; (5) document procedures performed and significant findings; (6) maintain control over the confirmation requests and responses in connection with the iFresh audit for fiscal year 2017; and (7) exercise due professional care and professional skepticism. Finally, Respondent failed to maintain an adequate system of quality control.

3. Respondent conducted the iFresh and Issuer A audits without including procedures that were adequately designed to identify related party transactions, and stated the audits had been conducted in accordance with PCAOB standards, when they had not. As a result, Respondent violated Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X, and engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and under Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

[3] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Respondent

4. **Friedman LLP ("Friedman")**, a limited liability partnership headquartered in New York, New York, is a public accounting firm registered with the PCAOB.

Relevant Entities and Individuals

5. **iFresh, Inc. ("iFresh")** is a Delaware corporation headquartered in Long Island City, New York. In February 2017, iFresh and its wholly owned subsidiary, E-Compass Acquisition Corp. ("E-Compass"), a SPAC, merged with NYM Holding, Inc. ("NYM") through a reverse merger, and became a public company. iFresh is an Asian/Chinese grocer that operates wholesale businesses and retail supermarkets across New York, Massachusetts, and Florida. iFresh's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is quoted on an unsolicited basis under the ticker symbol "IFMK" on OTC Link whose parent company is OTC Markets Group Inc. iFresh's fiscal year ends on March 31, and it files periodic reports, including Form 10-K, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

6. **Issuer A** is a Delaware corporation whose common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act.

7. **Long Deng ("Deng")**, age 54, is a resident of Roslyn, New York. Deng was the Chairman of the Board of iFresh from February 2017 until April 2022, when the Delaware Chancery Court affirmed a shareholder vote to remove him from iFresh's board of directors. Deng was also iFresh's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") from February 2017 through April 2022. Deng founded NYM in 1995 and was NYM's CEO, COO and sole Director during the relevant time period.

Facts

2017–2020 iFRESH AUDITS

Background

8. Friedman was first engaged to perform an audit for NYM for the fiscal years ending March 31, 2015 and 2016 in March 2016 (collectively the "2016 audit"). Friedman also performed audits for iFresh for the fiscal years ending March 31, 2017, 2018, 2019, and 2020, and issued unqualified audit reports in all fiscal years. The audit reports each stated that Friedman had conducted its audits in accordance with PCAOB standards. After the review for the quarter ended June 30, 2020, iFresh dismissed Friedman as its auditor.[4]

9. iFresh and Deng engaged in a substantial number and a variety of types of related party transactions. iFresh filed year-end financial statements for the fiscal years ending March

[4] iFresh filed a Form 8-K on October 6, 2020 announcing a change in auditor and that there were no disagreements with Friedman.

31, 2017, 2018, 2019 and 2020 that were materially misstated because they failed to properly disclose certain material related party transactions.

Friedman Failed to Conduct the 2017 through 2020 iFresh Audits in Accordance with PCAOB Standards

10. Friedman performed inadequate audit procedures with regard to iFresh's related party transactions. Friedman did not obtain a sufficient understanding of iFresh's relationships and transactions with its related parties as required by PCAOB Auditing Standard 2410, *Related Parties* ("AS 2410"). In connection with each of the 2017 through 2020 audits, Friedman obtained a related party list from iFresh that contained the names of at least 30, and as many as 42 entities, all of which were owned or controlled by Deng. Friedman did not sufficiently understand how the related party list was created, or whether the list was complete.

11. iFresh disclosed in its Form 10-Ks for the 2017 through 2020 fiscal years that its disclosure controls and procedures were not effective and that it lacked employees with adequate knowledge of the SEC's rules and requirements. In the Form 10-K for fiscal year 2018, iFresh reported that its internal control over financial reporting was not effective, and in the Forms 10-K for fiscal years 2019 and 2020, it reported material weaknesses related to lacking accounting personnel with sufficient knowledge of GAAP and SEC reporting experience. Despite these disclosures, Friedman did not sufficiently understand iFresh's process for identifying a related party or accounting for and disclosing relationships and transactions with related parties.[5]

Friedman Failed to Design and Perform Procedures Responsive to Assessed Risks for the 2017 through 2020 Audits.

12. PCAOB Auditing Standard 2301, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 2301") requires that "the auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure" (.08). AS 2301 states that "[f]or significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks" (.11). PCAOB Auditing Standard No. 2110, *Identifying and Assessing Risks of Material Misstatement*, states that a fraud risk is a significant risk (.71).

13. Friedman failed to perform sufficient substantive audit procedures specifically designed to be responsive to fraud risks. Related party transactions were identified as a fraud risk for the 2017 through 2020 audits. In addition, accounts receivable and revenue were identified as significant audit areas and fraud risks for all audits. Due professional care in these audit areas required Friedman to exercise professional skepticism. PCAOB Auditing Standard No. 2401, *Consideration of Fraud in a Financial Statement Audit* (.13).

14. Friedman failed to exercise professional skepticism when reviewing work papers. First, the work papers that documented the details and testing of accounts receivable and prepaid expenses and other current assets contained names included on iFresh's related party lists.

[5] See Accounting Standards Codification ("ASC") Topic 850, *Related Party Disclosures*

Friedman did not identify the names on the work papers as related parties, so certain related party transactions were not disclosed in the financial statements.

15. Second, Friedman failed to recognize red flags that indicated undisclosed related parties. For example, schedules provided to Friedman by iFresh in connection with the 2018 through 2020 audits included names of entities that had similar names as iFresh subsidiaries, and transaction descriptions that were inconsistent with iFresh's business.

16. Friedman also encountered numerous red flags of undisclosed related party transactions with Li Ba HVAC & Construction ("Li Ba"). Li Ba was a related party because it was owned by Deng's brother.[6] In connection with the 2018 audit, Friedman was aware that Li Ba was owned by Deng's brother. AS 2410 states the auditor should look to the requirements of the SEC and to GAAP for the definition of a related party (.01). Accounting Standards Codification Topic 850, *Related Party Disclosures* provides that related party transactions include, among other things, transactions between an entity and its principal owners or members of their immediate families. ASC 850-10-05-3. Immediate family is defined as "Family members who might control or influence a principal owner or a member of management, or who might be controlled or influenced by a principal owner or a member of management, because of the family relationship." ASC 850-10-20.

a. Other red flags that indicated undisclosed related party transactions with Li Ba include[7]: iFresh's largest receivable was from Li Ba, with long aging and little to no collection for the 2017 through 2020 audits (the aging exceeded iFresh's bad-debt policy, which required accounts receivable to be written off after 90 days);

b. iFresh engaged in significant unusual transactions with Li Ba. Friedman's 2017 through 2020 audit files documented that iFresh sold commercial refrigeration equipment to Li Ba, which was outside the normal course of business for iFresh;

c. Li Ba had the same address as iFresh, a fact of which Friedman was aware;

d. Li Ba paid a legal settlement in the amount of $652,000 on behalf of iFresh. Friedman obtained the settlement agreement as part of the 2018 audit. The disclosure in the financial statements inaccurately stated a third party paid the settlement on iFresh's behalf. Friedman never questioned *why* Li Ba paid the legal settlement or if this payment was evidence that Deng could exercise control over Li Ba; and

e. Friedman knew as part of the 2019 and 2020 audits that iFresh and Li Ba had engaged in lending transactions with each other.

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[6] Li Ba was also a related party because Deng could exercise control by having signature authority over Li Ba's bank accounts. Friedman was not aware of Deng's signature authority.

[7] Appendix A of AS 2410 provides examples of information that could indicate undisclosed related party transactions. The examples include, extended payment terms, borrowing or lending without fixed repayment terms, and contracts or agreements representing unusual transactions (.A2).

17. In addition, iFresh made material undisclosed payments to Li Ba for property and equipment.

18. During the fiscal year 2020 second and third quarter reviews, Friedman failed to identify red flags that indicated transactions with other undisclosed related parties. Friedman obtained agreements that showed Deng made payments totaling $500,000 to iFresh on behalf of New York Mart White Plains, Inc. ("White Plains") to satisfy accounts receivable owed to iFresh, and another undisclosed related party, Jiutian Music Club ("Jiutian"), made capital contributions of approximately $558,000 to iFresh on behalf of Deng. White Plains and Jiutian were related parties because Deng could exercise control by having signature authority over bank accounts and they are owned by Deng's brother. Friedman did not sufficiently question why Deng would personally pay a liability on behalf of a purportedly unrelated party and why a purportedly unrelated party would make capital contributions on behalf of Deng. In addition, copies of the checks from Jiutian showed the same address as iFresh, and Deng signed the checks.

Friedman Failed to Perform Procedures to Identify Related Party Transactions for the 2017 through 2020 Audits.

19. Section 10A(a)(2) of the Exchange Act requires that the audit of the financial statements of an issuer by a registered public accounting firm shall include procedures designed to identify related party transactions that are material to the financial statements or otherwise require disclosure therein.

20. The guidance in AS 2410 requires the auditor to perform procedures to test the accuracy and completeness of related parties and related party transactions identified by the company, including taking into account information gathered during the audit, which could include significant unusual transactions (.14). As detailed above, the 2017 through 2020 Li Ba transactions were material, and Friedman overlooked numerous red flags indicating that there were undisclosed related party transactions.

21. AS 2410.15 states, "If the auditor identifies information that indicates that related parties or relationships or transactions with related parties previously undisclosed to the auditor might exist, the auditor should perform the procedures necessary to determine whether previously undisclosed relationships or transactions with related parties, in fact, exist. These procedures should extend beyond inquiry of management." As detailed above, Friedman did not perform sufficient procedures designed to identify related party transactions and failed to perform procedures when confronted with information that indicated undisclosed related party transactions.

Friedman Failed to Obtain Sufficient Appropriate Audit Evidence for the 2017 through 2020 Audits.

22. PCAOB Auditing Standard 1105, *Audit Evidence* ("AS 1105"), requires the auditor to "plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for his or her opinion" (.04). Friedman issued audit reports in connection with the 2017 through 2020 audits that contained unqualified opinions. However,

Friedman failed to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinions.

23. For fiscal years 2017 through 2020, iFresh disclosed in the notes to the financial statements that it had advanced funds to related entities that it intended to acquire ("Target Entities"). The disclosed amounts due from the Target Entities included balances that were assigned to the Target Entities from other entities that were owned or controlled by Deng ("Assignors"). Friedman did not obtain agreements that authorized the transfer from the Assignors to the Target Entities of all of the liabilities that were reflected in the balances due from the Target Entities in fiscal years 2017 through 2020.

24. In fiscal year 2020, iFresh disclosed in the notes to the financial statements a debt conversion agreement in which iFresh converted $3.5 million in debt owed to Deng to 1,000 preferred shares of iFresh. Friedman failed to obtain sufficient appropriate audit evidence to support portions of the debt conversion agreement in connection with the 2020 audit. Friedman failed to obtain sufficient evidence regarding the transactions underlying iFresh's debts that were assigned by Deng before the debt conversion.

Friedman Failed to Respond to Fraud Risks for the 2017 through 2020 Audits.

25. PCAOB Auditing Standard 2401, *Consideration of Fraud in a Financial Statement Audit* ("AS 2401") states that the auditor should design and perform procedures to obtain an understanding of the business purpose of significant unusual transactions (.66A) and "must evaluate whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements" (.67A). Significant unusual transactions are defined as, "outside the normal course of business for the company or that appear to be unusual due to their timing, size, or nature" (.66).

26. Friedman failed to design and to perform procedures to obtain a sufficient understanding of the following significant unusual transactions involving undisclosed related parties: 1) the sale of commercial refrigeration equipment to Li Ba and the resulting large receivable with long aging and little to no collection for the 2017 through 2020 audits; 2) a legal settlement paid by Li Ba on behalf of iFresh for the 2018 audit; 3) iFresh and Li Ba extending loans to each other for the 2019 and 2020 audits; 4) Deng's payments to iFresh on behalf of White Plains for the 2020 audit; and 5) Jiutian's capital contributions to iFresh on behalf of Deng for the 2020 audit.

27. Friedman failed to evaluate the business purpose of the above transactions and whether there were indications of undisclosed related party transactions that would cause fraudulent financial reporting. Even when Friedman obtained supporting documentation, as discussed above, it failed to recognize red flags of undisclosed related party transactions.

Friedman Failed to Document Procedures Performed and Significant Findings for the 2017 through 2020 Audits.

28. AS 1215, *Audit Documentation* ("AS 1215"), states that "audit documentation must include information the auditor has identified relating to significant findings or issues that is inconsistent with or contradicts the auditor's final conclusions" (.08). Audit documentation is "the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. Audit documentation also facilitates the planning, performance, and supervision of the engagement, and is the basis for the review of the quality of the work because it provides the reviewer with written documentation of the evidence supporting the auditor's significant conclusions" (.02).

29. In connection with the 2017 through 2020 audits, Friedman failed to document the Assignors' assignment of a portion of the advances and receivables due from related parties to the Target Entities ("Debt Assignments"). More specifically, Friedman's audit work papers did not adequately document the existence of the Debt Assignments, nor did Friedman obtain the underlying agreements.

30. In connection with the 2018 through 2020 audits, Friedman failed to document that Li Ba was owned by Deng's brother.

Friedman Failed to Maintain Control over the Confirmation Requests and Responses for the 2017 Audit.

31. PCAOB Auditing Standard AS 2310, *The Confirmation Process* ("AS 2310") provides guidance about the audit confirmation process. Confirmation is the process of obtaining and evaluating a direct communication from a third party in response to a request for information about a particular item affecting financial statement assertions, including presentation and disclosure; and evaluating the information provided by the third party (AS 2310 at .04 and .11). Additionally, "The auditor should exercise an appropriate level of professional skepticism throughout the confirmation process" (.15). An auditor should maintain control over confirmation requests and responses, which means establishing direct communication between intended recipient and the auditor to minimize the possibility that the results will be biased because of interception and alteration (AS 2310 at .28).

32. In connection with the 2017 audit, Friedman failed to adhere to AS 2310. First, it did not obtain a confirmation response directly from Li Ba. Instead, Friedman accepted an email forwarded from the iFresh Accounting Manager containing the confirmation response from Li Ba. Second, it failed to evaluate the information provided on the confirmation with professional skepticism. Li Ba's 2017 confirmation listed the same address as iFresh, an indication that it may be (and in fact was) an undisclosed related party.

Friedman Failed to Exercise Due Professional Care for the 2017 through 2020 Audits.

33. PCAOB Auditing Standard 1015, *Due Professional Care in the Performance of Work* ("AS 1015"), states that auditors are required to exercise due professional care throughout the audit. AS 1015 states that the "engagement partner should know, at a minimum, the relevant professional accounting and auditing standards…" (.06). Due professional care requires that the auditor exercise professional skepticism. Under this standard, "[p]rofessional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence" (.07), and auditors should "consider the competency and sufficiency of the evidence" (.08) and "neither assume[] that management is dishonest nor assume[] unquestioned honesty" (.09).

34. As a result of Friedman's conduct described in paragraphs 10 through 32 above, Friedman failed to exercise due professional care and an attitude of professional skepticism as required by AS 1015.

2017–2019 ISSUER A AUDITS

Background

35. Friedman was first engaged in September 2017 to perform an audit of Issuer A's financial statements for the years ending December 31, 2016 and 2017 (collectively the "2017 audit"). Friedman also performed audits of Issuer A's financial statements for the years ending December 31, 2018, 2019, and 2020, and issued unqualified audit reports for each of those years. Each audit report stated that Friedman had conducted its audits in accordance with PCAOB standards. Issuer A dismissed Friedman as its auditor in September 2021.[8]

Friedman Failed to Conduct the 2017 through 2019 Issuer A Audits in Accordance with PCAOB Standards

Friedman Failed to Obtain Sufficient Appropriate Audit Evidence Relating to the Staff Loan Program for the 2017 through 2019 Audits (AS 1105).

36. Prior to going public, Issuer A had a multimillion dollar liability recorded on its books and records, described by Issuer A's management as a liability for a "staff loan" program. In 2017, in preparation for going public, Issuer A removed this liability from its books in a series of accounting entries which included assigning this liability to an executive of Issuer A, via the executive's stockholder loan account on Issuer A's books.

37. Issuer A reclassified amounts from the executive's loan account into a note receivable from a purportedly unrelated party on Issuer A's books, based on a claim that the note receivable related to a line of credit provided to that entity. Issuer A amended the note receivable several times. Issuer A also continued to increase the balance on the note receivable via a series of transactions in Issuer A's cash on hand account, including after Issuer A went public in 2018. At December 31, 2018, the then-outstanding note receivable totaled approximately $3.8 million. In 2019, the executive issued a personal guarantee for the

[8] Issuer A filed a Form 8-K announcing a change in auditor and that there were no disagreements with Friedman.

outstanding note receivable, and subsequently purchased the note receivable from Issuer A using shares of Issuer A.

38. Friedman was aware of the liability for the staff loan program, the transfer of the balance to the executive's loan account, and the removal of the staff loan liability from Issuer A's books and records. Friedman was also aware of the line of credit with the purportedly unrelated party, the notes receivable, and the executive's personal guarantee and purchase of the outstanding note.

39. Notwithstanding this knowledge, there is insufficient audit evidence that Friedman took adequate steps to: understand the operation of the staff loan program by Issuer A; evaluate whether it was proper not to disclose it in Issuer A's financial statements audited by Friedman; or gather adequate audit evidence to ensure that all transactions were properly recorded in Issuer A's books and records. Friedman failed to obtain any formal documentation evidencing that the executive had agreed to assume the liability for the amounts relating to the staff loan program. Friedman also failed to perform any procedures to verify that the liability was legally assumed by the executive and appropriately removed from the books and records of Issuer A.

40. In addition, Friedman failed to obtain adequate information to understand the underlying business purpose for the notes receivable with the purportedly unrelated party. Friedman also failed to gather appropriate audit evidence to validate the notes receivable, including failing to vouch the transfer of cash or assets from Issuer A to the purportedly unrelated party.

Friedman Failed to Obtain Sufficient Appropriate Audit Evidence, and Failed to Document Procedures Performed Relating to VIEs for the 2018 and 2019 Audits (AS 1105 and AS 1215).

41. In 2018 and 2019, Issuer A had transactions with multiple related parties that had characteristics of variable interest entities (VIEs) but which were not classified as VIEs by Issuer A and not consolidated into Issuer A's financial statements and related disclosures. Generally accepted accounting principles (GAAP) state that "[a] variable interest entity [VIE] is defined as a legal entity subject to consolidation according to the variable interest entities model. The identification of variable interest entities and the determination of whether such entities should be consolidated should be based on substantive terms, transactions, and arrangements."[9]

42. During its 2018 and 2019 audits, Friedman was aware of transactions with related parties that had characteristics indicating their potential status as VIEs, including the lack of adequate equity capital and issues of whether the holders of the equity interests of the companies had the power to direct the activities of the entity. Notwithstanding this, Friedman failed to perform and document sufficient procedures to evaluate the VIE status of these related parties and whether the entities should be consolidated.

[9] ASC Topic 810, *Consolidation*

Friedman Failed to Properly Audit Related Party Transactions for the 2017 through 2019 Audits (AS 2410).

43. From 2018 to 2019, Issuer A made at least $1,400,000 in payments to a related party partially owned by one of its executives, pursuant to a service agreement between Issuer A and the related party. The invoices from the related party to Issuer A lacked detail of the services provided and instead only contained generic descriptions such as "service fee" or "professional fee."

44. Friedman failed to design and perform sufficient audit procedures to identify and evaluate these related party transactions during its 2018 and 2019 audits. Specifically, Friedman failed to understand the underlying business purpose and services rendered in connection with these related party payments. Friedman thus failed to design procedures to identify and obtain an adequate understanding of Issuer A's relationships and transactions with its related parties as required by Section 10A(a)(2) of the Exchange Act and AS 2410.

45. Issuer A also had numerous transactions with another related party partially owned by an executive. By December 31, 2017, Issuer A had extended approximately $6 million to this related party in the form of trade receivables. However, Issuer A did not have a regular trading relationship with this related party. Eventually, the outstanding receivable balance was converted into a promissory note between Issuer A and the related party. In 2019, an executive of Issuer A issued a personal guarantee for the note, then later purchased the note using shares of Issuer A.

46. Friedman failed to design and to perform sufficient audit procedures to identify and evaluate these related party transactions during its 2017, 2018, and 2019 audits. Specifically, Friedman failed to confirm the existence of a trading relationship between Issuer A and the related party that supported the large outstanding trade receivable balance. Friedman thus failed to design procedures to identify and obtain an adequate understanding of Issuer A's relationships and transactions with its related parties as required by Section 10A(a)(2) of the Exchange Act and AS 2410.

Friedman Failed to Obtain Sufficient Appropriate Audit Evidence in Connection with a Sale of Assets to a Related Party for the 2018 Audit (AS 1105 and AS 2410).

47. In 2018, Issuer A removed multiple assets and liabilities from its books, in connection with a sales transaction with a related party connected to one of its executives.

48. Friedman was aware of this transaction during its 2018 audit, but failed to obtain and evaluate sufficient audit evidence to confirm whether the transaction was properly accounted for as a sale under GAAP. Friedman also failed to obtain and evaluate sufficient audit evidence to confirm whether the corresponding liabilities were properly removed from Issuer A's books and records.

Friedman Failed to Exercise Due Professional Care for the 2017 through 2019 Audits (AS 1015).

49. As a result of Friedman's conduct described in paragraphs 36 through 48 above, Friedman failed to exercise due professional care and an attitude of professional skepticism as required by AS 1015.

Friedman Failed to Comply with PCAOB Quality Control Standards

50. Friedman did not design and implement an adequate system of quality control and thus failed to adhere to PCAOB Standard QC Section 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20"). Pursuant to QC §20, "[a] firm has a responsibility to ensure that its personnel comply with the professional standards applicable to its accounting and auditing practice, and "a system of quality control is broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality." QC § 20.03. Designing a system of quality control includes adopting policies and establishing procedures to provide the firm with reasonable assurance of complying with professional standards. QC § 20.04. This includes policies and procedures for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client, by providing the firm with reasonable assurance that the likelihood of association with a client whose management lacks integrity is minimized. QC § 20.14. It also includes policies and procedures that provide the firm with reasonable assurance that "the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality." QC § 20.17. Firm policies and procedures should also provide reasonable assurance that the policies and procedures established for the elements of quality control described in the standard are "suitably designed and are being effectively applied." QC § 20.20. The policies and procedures should encompass elements relevant to personnel management, acceptance and continuance of clients and engagements, engagement performance, and monitoring, QC § 20.07, as well as planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement. QC § 20.18.

51. Friedman failed to adopt and implement adequate policies and procedures regarding audit documentation. First, Friedman did not have policies and procedures regarding audit documentation with respect to auditing related party transactions in accordance with AS 2410. As a result, the Engagement Quality Reviewer ("EQR") for the 2017 through 2020 iFresh audits was not informed of the existence of the Debt Assignments, the Li Ba relationship, or other red flags indicating undisclosed related party transactions, and did not have the opportunity to determine that there were corresponding auditing deficiencies and reporting and disclosure deficiencies.

52. Second, Friedman did not have adequate policies and procedures regarding which work papers should be saved in a permanent file or carried forward to the audit file. As a result, the engagement partner and the EQR for iFresh were unaware of additional red flags indicating that there were undisclosed related party transactions. For example, in connection with the quarterly iFresh interim reviews during the 2020 fiscal year, the agreements with White Plains

and Jiutian were not saved in an area of the quarterly review file that the engagement partner and the EQR were expected to review nor were they carried forward to the 2020 audit file.

53. Third, Friedman failed to staff its engagements with properly-trained personnel. Evidence indicates training was provided to the Friedman staff who worked on the iFresh and Issuer A engagements that was separate and apart from the overall Friedman training process. This training was inadequate to address the specific issues and risks for which it was designed. For example, while this training included guidance on understanding management's process for identifying related party transactions, it did not include, until 2020, guidance on the definition of related parties or procedures to identify undisclosed related party transactions.

54. Fourth, during the 2017, 2018, and 2019 audits of Issuer A, Friedman was aware of, or had access to, information from Issuer A that reflected its potentially concerning transactions and relationships, yet Friedman took no additional steps to verify the integrity of Issuer A's management. Accordingly, Friedman failed to establish sufficient client acceptance/continuance and engagement acceptance policies and procedures.

55. Friedman also failed to adequately monitor the design and application of its system of quality control in accordance with PCAOB Standard QC Section 30, *Monitoring a CPA Firm's Accounting and Auditing Practice* ("QC § 30"). QC § 30 states that a firm's internal inspection process may be considered part of the monitoring process, provided "[t]he review is sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and the firm's quality control policies and procedures." QC § 30.08a. "Inspection procedures contribute to the monitoring functions because findings are evaluated and changes in or clarifications of quality control policies and procedures are considered." QC § 30.04. As part of its monitoring process, Friedman had an annual internal inspection process whereby engagements were selected and inspected by an internal inspection team. However, Friedman's Quality Control Document for 2016 through 2020 failed to provide guidance on the work papers that the inspector was required to review. The iFresh audit for 2017 was selected for internal inspection but none of the audit deficiencies identified above were uncovered.

56. **Violations**

a. Section 10A(a)(2) of the Exchange Act requires each audit to include procedures designed to identify related party transactions that are material to the financial statements or otherwise require disclosure therein. No showing of *scienter* is necessary to establish a violation of Section 10A of the Exchange Act. As a result of the conduct described above, Friedman violated Section 10A(a)(2) of the Exchange Act.

b. Rule 2-02(b)(1) of Regulation S-X requires an accountant's report to state "whether the audit was made in accordance with generally accepted auditing standards" ("GAAS"). "[R]eferences in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to issuers, should be understood to mean the standards of the PCAOB plus any applicable rules of the

Commission." *See* SEC Release No. 34-49708 (May 14, 2004). No showing of *scienter* is necessary to establish a violation of Rule 2-02(b)(1) of Regulation S-X. As a result of the conduct described above, Friedman violated Rule 2-02(b)(1) of Regulation S-X, when it stated the audits had been conducted in accordance with PCAOB standards, when the audits had not been.

57. **Findings**

a. Based on the foregoing, the Commission finds that Friedman engaged in improper professional conduct pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

b. Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice provide, in part, that the Commission may deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission to have engaged in improper professional conduct. With respect to persons licensed to practice as accountants, "improper professional conduct" includes either of the following two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which an accountant knows, or should know, that heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission. Rule 102(e)(1)(iv)(B). Through the conduct described above, Friedman engaged in "improper professional conduct" within the meaning of Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

c. Based on the foregoing, the Commission finds that Friedman violated Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

Remedial Efforts

58. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

Disgorgement and Civil Penalty

59. The disgorgement and prejudgment interest ordered in paragraphs IV.D are consistent with equitable principles and does not exceed Respondent's net profits from its violations and will be distributed to harmed investors, if feasible. The Commission will hold funds paid pursuant to paragraphs IV.D in an account at the United States Treasury pending a

decision whether the Commission in its discretion will seek to distribute funds. If a distribution is determined feasible and the Commission makes a distribution, upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return to investors, may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

Undertakings

Friedman has undertaken to:

A. Training. Prior to October 1, 2023, Friedman shall certify (as required by paragraph E, below) that each of its audit professionals serving public company audits who was part of the China Practice Group and, during any year beginning in 2017, received annual training through that practice group to complete successfully a minimum of 24 hours of audit-related training. The audit-related training requirement may be fulfilled by completing course(s) conducted in accordance with the applicable state boards of accountancy, including any course qualifying for CPE credit with an applicable state board. The training shall cover (1) risk assessment, including the auditor's responses to the risks of material misstatement; (2) the identification of related parties and related party transactions and the examination and evaluation of such transactions and the appropriate disclosures thereof; (3) obtaining sufficient appropriate audit evidence; (4) the consideration of fraud in a financial statement audit, including obtaining an understanding of significant unusual transactions and review and testing of journal entries; (5) adequate audit documentation, including documentation of significant findings; (6) the confirmation process, including obtaining and evaluating evidence from third parties; and (7) the exercise of due professional care and professional skepticism. The following topics should be accorded the training hours noted below:

a. At least 8 hours shall be devoted to the auditor's assessment of and response to risk;
b. At least 4 hours shall be devoted to related party identification and testing; and
c. At least 2 hours shall be devoted to audit documentation.

B. Friedman shall inform its audit professionals of the terms of the Order within ten business days after entry of the Order.

C. Friedman shall appoint an internal team leader on US GAAP, SEC regulations and PCAOB standards to oversee the above undertakings.

D. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

E. Friedman shall certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of

compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. All reports and certifications mentioned in these undertakings shall be submitted to Paul Montoya, Associate Regional Director, Chicago Regional Office, Securities and Exchange Commission, 175 W. Jackson Boulevard, Suite 1450, Chicago, IL 60604, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

F. In determining whether to accept Friedman's Offer, the Commission has considered the above undertakings. Friedman agrees that if the Division of Enforcement believes that Friedman has not satisfied these undertakings, it may petition the Commission to reopen the matter to determine whether additional sanctions are appropriate.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED, effective immediately, that**:**

A. Pursuant to Sections 4C and 21C of the Exchange Act, Respondent shall cease and desist from committing or causing any violations and any future violations of Section 10A(a)(2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

B. Respondent is censured.

C. Respondent shall comply with its undertakings as enumerated in Paragraphs A through F of Section III above.

D. Respondent shall, within 30 days of the entry of this Order, pay disgorgement of $524,138 and pre-judgment interest of $40,574, and a civil money penalty in the amount of $1,000,000 to the Securities and Exchange Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold the funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or, transfer them to the general fund of the United States Treasury, subject to Section 21F(g)(3). If timely payment of disgorgement and prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. If timely payment of the civil penalty is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Friedman as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Paul Montoya, Associate Regional Director, Chicago Regional Office, Securities and Exchange Commission, 175 W. Jackson Boulevard, Suite 1450, Chicago, IL 60604.

E. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be

deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary