PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of Mimi Liu, CPA,

Respondent.

PCAOB Release No. 105-2020-021

December 3, 2020

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is suspending Mimi Liu, CPA ("Liu" or the "Respondent") from being an associated person of a registered public accounting firm for a period of one year from the date of this Order.

The Board is imposing this sanction on Liu on the basis of its findings that Liu violated PCAOB rules and standards in connection with the audits of the financial statements of Issuer A for the year ended December 31, 2016 and Issuer B for the year ended March 31, 2016 (collectively, the "Audits").

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondent.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement ("Offer") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[1]

III.

On the basis of Respondent's Offer, the Board finds[2] that:

A. Respondent

1. **Mimi Liu** is a certified public accountant licensed by the Nevada State Board of Accountancy (License No. CPA-5430). At all relevant times, Liu was a partner of AMC Auditing, LLC ("AMC" or the "Firm") and an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Relevant Entity

2. **AMC Auditing, LLC** is a limited liability company organized under the laws of the State of Nevada and headquartered in Las Vegas, Nevada. AMC is licensed in the state of Nevada (Business ID NV20161240269). AMC is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

C. Issuers

3. Issuer A was, at all relevant times, a Marshall Islands corporation headquartered in Marjuro, Marshall Islands. Its public filings disclose that Issuer A was a development stage company focused on delivering targeted therapies, including chemotherapy drugs. Its common stock was registered, at all relevant times, under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act"). It was, at all relevant times, an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

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[1] The findings herein are made pursuant to the Offer and are not binding on any other person or entity in this or any other proceeding.

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

4. Issuer B was, at all relevant times, a Nevada corporation headquartered in Scottsdale, Arizona. Its public filings disclose that the company sold bottled water. Its common stock was registered, at all relevant times, under Section 12(g) of the Exchange Act. It was, at all relevant times, an issuer as that term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

D. Summary

5. This matter concerns Liu's violations of PCAOB rules and standards in connection with the Audits. Liu served as the engagement quality review ("EQR") partner for the 2016 audit of Issuer A and as the engagement partner for the 2016 audit of Issuer B.[3]

6. Liu gave her concurring approval in connection with the issuance of AMC's 2016 audit report for Issuer A, which expressed an unqualified audit opinion on Issuer A's financial statements. The audit report stated that AMC's audit was conducted in accordance with PCAOB standards and that the company's financial statements were fairly presented in all material respects in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). As detailed below, while serving as EQR partner for the Firm's 2016 audit of Issuer A, Liu failed to: (a) properly evaluate significant judgments made by the engagement team; and (b) properly evaluate whether the audit documentation supported the engagement team's conclusions reached. As a consequence, Liu failed to perform her review of the Firm's 2016 audit of Issuer A with due professional care.

7. Liu authorized the issuance of AMC's 2016 audit report for Issuer B, which expressed an unqualified opinion on Issuer B's financial statements. The audit report stated that the audit was conducted in accordance with PCAOB standards, and that the company's financial statements were fairly presented in all material respects in conformity with GAAP. As detailed below, Liu failed to obtain sufficient appropriate audit evidence and failed to perform sufficient audit procedures to support the opinion expressed in the audit report, in violation of PCAOB rules and auditing standards.

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[3] *See AMC Auditing, LLC and Alexandria Yi, CPA*, PCAOB Release No. 105-2020-020 (Dec. 3, 2020).

E. Respondent Violated PCAOB Rules and Standards in Connection with the 2016 Audit of Issuer A.

8. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.[4] AS 1220, *Engagement Quality Review*, requires that an EQR be performed on all audit engagements conducted pursuant to PCAOB standards.[5] AS 1220 also provides that a firm may grant permission to an audit client to use the firm's audit report only after an EQR partner provides concurring approval of issuance of the report.[6] In conducting the engagement quality review, the EQR partner should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement.[7] The EQR partner should also evaluate whether the engagement documentation supports the conclusions reached by the engagement team with respect to the matters reviewed by the EQR partner.[8]

9. Prior to 2016, Issuer A had a history of recurring losses. In 2016, Issuer A reported an intangible asset, subject to amortization, related to a patent license agreement. The intangible asset represented approximately 37 percent of total assets. The company claimed to be using the patent license agreement in connection with developing a program to deliver chemotherapy drugs.

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4 *See* PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards* (applicable to audits for fiscal years ending before December 31, 2016); and PCAOB Rule 3200, *Auditing Standards* (applicable to audits for fiscal years ending on or after December 31, 2016). As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. *See Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); *see also PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (Jan. 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. While Respondent's conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

5 *See* AS 1220.01.

6 *Id.* at .13.

7 *Id.* at .09.

8 *Id.* at .11.

10. The engagement team did not perform an appropriate risk assessment relating to the intangible asset, and it did not perform sufficient procedures to identify and assess the risks of material misstatement related to the intangible asset.[9] The engagement team's risk assessment procedures were documented in work papers that Liu reviewed.

11. The engagement team also did not identify and assess risks related to the effect of certain conditions on the recoverability of the intangible asset or its valuation.[10] These conditions included the issuer's lack of revenue, recurring losses, negative cash flows from operating activities, and its accumulated deficit. In addition to reviewing the risk assessment work papers, Liu also reviewed the issuer's financial statements and the Firm's draft audit report, which identified these conditions.

12. The intangible assets section of AMC's work papers for this audit, which Liu reviewed, consisted of: (1) an amortization and depreciation worksheet; and (2) an impairment questionnaire filled out by company management. The engagement team did not perform audit procedures beyond recalculating the amortization and depreciation calculations on the worksheet and reviewing the issuer's impairment questionnaire responses. The impairment questionnaire contained questions asking management to identify events or changes in circumstances that indicated the potential need to test a long-lived asset for recoverability. For each item, management represented that the events or changes in circumstances were not applicable, even though certain items appeared to be applicable based on the facts known to the engagement team and Liu at the time of the audit. For example, one of the factors on the impairment questionnaire asked whether there was a "current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)," and management responded "No." The engagement team and Liu, however, reviewed the issuer's financial statements, which revealed that the company had a current-year operating cash flow loss and operating cash flow losses for the last several years.

13. As stated above, Liu also reviewed AMC's draft audit report, which included an explanatory paragraph indicating that there was substantial doubt about the issuer's ability to continue as a going concern due to the following conditions: lack of revenue, recurring losses, negative cash flows from operating activities, and accumulated deficit. Despite knowing about this information, which contradicted management's representations in the completed questionnaire and raised serious questions about whether the intangible asset was properly

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9 *See* AS 2110.04, *Identifying and Assessing Risks of Material Misstatement*.

10 *See id.* at .07.

valued, Liu, serving as the EQR partner, provided concurring approval for the issuance of AMC's audit report, and the engagement partner authorized the issuance of that report.

14. Liu reviewed the engagement team's intangible asset work papers, and thus knew that the engagement team had determined not to perform procedures outside of recalculating the amortization and depreciation calculations and management inquiry. Liu also knew that certain management responses in the impairment questionnaire were contradicted by information in the issuer's financial statements and the Firm's own audit report. Finally, the work papers she reviewed did not evidence any consideration by the engagement team of contradictory audit evidence known to the team and Liu. As a result, Liu failed to conduct her review with due professional care and failed to properly evaluate the significant judgments made, and the related conclusions reached, by the engagement team.[11] Liu also failed to properly evaluate whether the audit documentation supported the engagement team's conclusions with respect to the intangible asset, in violation of PCAOB rules and auditing standards.[12]

F. Respondent Violated PCAOB Rules and Standards in Connection with the 2016 Audit of Issuer B.

15. An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[13] Among other things, PCAOB standards require an auditor to exercise due professional care, exercise professional skepticism, and plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the auditor's opinion.[14]

16. Issuer B's 2016 financial statements were originally audited by a different firm. Following the Board's issuance of an order revoking the predecessor auditor's registration with the PCAOB, and suspending an engagement partner at the predecessor auditor, Issuer B was

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[11] *See* AS 1220.09; AS 1015.07, *Due Professional Care in the Performance of Work*.

[12] *See* AS 1220.11.

[13] *See* AS 3101.07, *Reports on Audited Financial Statements* (applicable to audits for fiscal years ending before December 15, 2017).

[14] *See* AS 1015.01 and .07; AS 1105.04, *Audit Evidence*.

required to have its 2016 financial statements reaudited.[15] AMC performed the reaudit and Liu served as the engagement partner.

17. In 2016, Issuer B reported inventory that represented approximately 12 percent of total assets. The predecessor auditor's work papers, which were included in the AMC reaudit work papers, indicated that inventory was held at five locations. Liu did not perform sufficient appropriate procedures to test the existence of inventory, such as making or observing physical counts of the inventory and applying appropriate tests of intervening transactions, but instead relied on the predecessor auditor's performance, at the time of the original 2016 audit, of a year-end physical inventory observation and inventory test counts at two locations.[16] In 2016, inventory at those two locations represented approximately 42 percent of the issuer's inventory at year-end. In addition, Liu failed to perform any procedures to test the existence of inventory held at other locations and in transit, which represented approximately 58 percent of the issuer's inventory at year-end.[17] Despite this, Liu authorized the issuance of AMC's audit report containing an unqualified opinion.

18. In sum, because inventory observation procedures were not performed for most of the reported inventory, nor was sufficient evidence obtained or conclusions reached to evaluate Issuer B's representations about quantities and physical condition of inventory, Liu failed to obtain sufficient evidence for reported inventory during Issuer B's 2016 audit.[18]

IV.

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

A. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Mimi Liu, CPA is suspended for a period of one year from the date of this Order from

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15 *See Seale and Beers CPAs, LLC, and Charlie B. Roy, CPA*, PCAOB Release No. 105-2017-038 (Sept. 14, 2017).

16 *See* AS 2510.12, *Auditing Inventories*.

17 *See id.*; AS 1105.04 and .22.

18 *See id*.

being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).[19]

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 3, 2020

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