PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

1666 K Street NW
Washington, DC 20006

Office: 202-207-9100
Fax: 202-862-8430

www.pcaobus.org

ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS

In the Matter of AMC Auditing, LLC and Alexandria Yi, CPA,

Respondents.

PCAOB Release No. 105-2020-020

December 3, 2020

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is imposing sanctions upon AMC Auditing, LLC ("AMC" or the "Firm") and Alexandria Yi, CPA ("Yi") (collectively, "Respondents"). The Board is:

(1) revoking the registration of AMC, a registered public accounting firm;[1] and

(2) barring Yi from being associated with a registered public accounting firm.[2]

The Board is imposing these sanctions on the basis of its findings that: (a) Respondents violated PCAOB rules and standards in connection with the Firm's audits of the financial statements of Issuer A for the year ended December 31, 2016, and Issuer B for the years ended March 31, 2016 and March 31, 2017 (collectively, the "Audits"); and (b) the Firm violated PCAOB rules and quality control standards in connection with the Audits.

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[1] The Firm may reapply for registration after one year from the date of this Order.

[2] Yi may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order. If the Board later consents to Yi associating with a registered firm, the Board further restricts, for one year from the date of the granting of such consent, the roles that Yi may perform on "audits," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act").

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 Act and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[3]

III.

On the basis of Respondents' Offers, the Board finds[4] that:

A. Respondents

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

2. **Alexandria Yi** is a certified public accountant licensed by the Nevada State Board of Accountancy (License No. CPA-5330). At all relevant times, Yi was a partner of AMC and an

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

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

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. 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).

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).

C. Summary

5. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the Audits. Yi served as the engagement partner for the 2016 audit of Issuer A, and as the engagement quality review ("EQR") partner for the 2016 and 2017 audits of Issuer B.[5]

6. In the 2016 audit report for Issuer A, the Firm expressed an unqualified opinion on Issuer A's financial statements. The audit report stated that the Firm'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, Respondents 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.

7. In the 2016 and 2017 audit reports for Issuer B, the Firm expressed unqualified opinions on Issuer B's financial statements. The audit reports stated that the Firm's audits were 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, the

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5 *See Mimi Liu, CPA*, PCAOB Release No. 105-2020-021 (Dec. 3, 2020).

Firm failed to obtain sufficient appropriate audit evidence and failed to perform sufficient audit procedures to support the opinions expressed in the audit reports, in violation of PCAOB rules and auditing standards.

8. While serving as the EQR partner for the Firm's 2016 and 2017 audits of Issuer B, Yi provided her concurring approval for the issuance of the Firm's audit reports despite Yi failing to: (a) properly evaluate the significant judgments made, and the related conclusions reached, by the engagement teams; and (b) properly evaluate whether the audit documentation supported the engagement teams' conclusions. As a consequence, Yi failed to perform her review of the Firm's 2016 and 2017 audits of Issuer B with due professional care.

9. Finally, this matter concerns the Firm's violations of PCAOB rules and quality control standards. In connection with the Audits, the Firm failed to maintain a system of quality control sufficient to provide the Firm with reasonable assurance that engagement teams performed issuer audits in accordance with applicable professional standards and regulatory requirements.

D. Respondents Violated PCAOB Rules and Standards in Connection with the Audits.

10. 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.[6] 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.[7] Among

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[6] *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 Respondents' conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

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

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 evidence to provide a reasonable basis for the auditor's opinion.[8]

11. Further, while management representations are part of the evidential matter the auditor obtains, they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.[9] If management representations are contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representations made and, based on the circumstances, consider whether his or her reliance on management's representations relating to other aspects of the financial statements is appropriate and justified.[10]

i. Respondents' 2016 Audit of Issuer A

12. 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.

13. Respondents failed to perform an appropriate risk assessment relating to the intangible asset, and failed to perform sufficient procedures to identify and assess the risks of material misstatement related to the intangible asset.[11] Respondents also failed to identify and document intangible assets as a significant account.

14. Respondents failed to identify and assess risks related to the effect of certain conditions on the recoverability of the intangible asset or its valuation.[12] These conditions,

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[8] *See* AS 1015.01 and .07, *Due Professional Care in the Performance of Work*; AS 1105.04, *Audit Evidence*.

[9] *See* AS 2805.02, *Management Representations*.

[10] *Id.* at .04.

[11] *See* AS 2110.04, *Identifying and Assessing Risks of Material Misstatement*.

[12] *See id.* at .07.

which were known to Respondents, included the issuer's lack of revenue, recurring losses, negative cash flows from operating activities, and its accumulated deficit.

15. The intangible assets section of AMC's work papers for this audit consisted of: (1) an amortization and depreciation worksheet; and (2) an impairment questionnaire filled out by company management. Respondents failed to perform audit procedures beyond recalculating the amortization and depreciation calculations on the worksheet and reviewing the issuer's impairment questionnaire responses. As explained below, the procedures performed failed to provide sufficient appropriate audit evidence about whether the asset was properly valued. [13]

16. Respondents also failed to take into account all relevant audit evidence, regardless of whether it appeared to corroborate or to contradict the assertions in the financial statements.[14] Management's representations in the impairment questionnaire were contradicted by other audit evidence. 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 Respondents 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." Respondents knew, and the issuer's financial statements revealed, however, that the company had a current-year operating cash flow loss and operating cash flow losses for every year since 2013.[15] Respondents, however, failed to exercise professional skepticism by not investigating the circumstances and considering the reliability of the management representations made.[16]

17. In addition, the Firm's audit report 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

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13 *See* AS 1015.07; AS 1105.04.

14 *See* AS 2810.03, *Evaluating Audit Results.*

15 *See* AS 1105.29; AS 2805.02 and .04; AS 2810.03.

16 *See* AS 1015.07.

about whether the intangible asset was properly valued, Yi authorized the issuance of the Firm's audit report without investigating the circumstances and considering the reliability of management's representations.[17]

18. Respondents failed to evaluate the intangible asset with due professional care and professional skepticism, and failed to resolve inconsistencies in the audit evidence suggesting that management's representations in the impairment questionnaire were inaccurate.[18] Instead, Respondents accepted management's representations and ignored the inconsistent audit evidence.[19] Respondents thus failed to obtain sufficient appropriate audit evidence and failed to perform sufficient procedures to assess the impairment and valuation of the intangible asset, in violation of PCAOB rules and auditing standards.

ii. AMC's 2016 and 2017 Audits of Issuer B

19. 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 required to have its 2016 financial statements reaudited. AMC performed the reaudit.[20]

20. 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. The Firm 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.[21] In 2016, inventory at those two locations represented approximately 42 percent of the issuer's inventory at year-end. In addition, the Firm failed to perform any

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17 *See id.*; AS 1105.29; AS 2805.02 and .04; AS 2810.03.

18 *See id.*

19 *See* AS 1105.29.

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

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

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.[22]

21. In 2017, Issuer B reported inventory that represented approximately 19 percent of total assets. At year-end, the issuer had inventory in six locations and inventory in-transit. The Firm performed an inventory observation at the same two locations selected the prior year, where approximately 25 percent of inventory was held in 2017. The Firm, however, failed to perform any procedures related to the existence of approximately 75 percent of inventory.

22. 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, the Firm failed to obtain sufficient evidence for the reported inventory during Issuer B's 2016 audit and most of the reported inventory for the 2017 audit.[23]

iii. Yi's EQR of the 2016 and 2017 Audits of Issuer B

23. AS 1220 requires that an EQR be performed on all audit engagements conducted pursuant to PCAOB standards.[24] 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.[25] Further, 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.[26] 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.[27]

24. Yi reviewed the engagement documentation that indicated the procedures performed for inventory testing in the 2016 and 2017 audits of Issuer B, and gave her concurring approval for the issuances of the 2016 and 2017 audit reports. During her EQR, Yi reviewed the issuer's financial statements, which reflected that inventory represented

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

23 *See* AS 1105.04 and .22.

24 *See* AS 1220.01, *Engagement Quality Review*.

25 *Id.* at .13.

26 *Id.* at .09.

27 *Id.* at .11.

approximately 12 percent of total assets in 2016 and 19 percent in 2017. Yi also reviewed the engagement teams' inventory work papers, and thus knew that the engagement team had determined in each audit to rely on the testing of the same two locations. In giving her concurring approval, Yi failed to properly evaluate this significant judgment made, and the related conclusions reached, by the engagement teams for these audits, and failed to properly evaluate whether the audit documentation supported the engagement teams' conclusions with respect to the existence of reported inventory during Issuer B's 2016 audit and most of the reported inventory for the 2017 audit, in violation of PCAOB rules and auditing standards.[28]

E. The Firm Violated PCAOB Quality Control Standards.

25. PCAOB rules and standards require that a registered firm establish and maintain a system of quality control for its accounting and auditing practice.[29] A firm should establish policies and procedures to provide it with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality.[30]

26. In connection with the Audits, AMC failed to establish and maintain policies and procedures that provided reasonable assurance Firm personnel complied with applicable professional standards and regulatory requirements, including exercising due professional care and obtaining sufficient appropriate evidence.[31] Instead, on multiple issuer audits, conducted by multiple engagement personnel over the course of multiple years, AMC and its professionals failed to comply with applicable professional standards and regulatory requirements. As a result, AMC violated PCAOB rules and quality control standards.

IV.

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

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28 *See* AS 1015.07; AS 1220.09-.11.

29 *See* PCAOB Rule 3400T, *Interim Quality Control Standards*; QC § 20.01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

30 QC § 20.17.

31 *See id.*

A. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of AMC Auditing, LLC is revoked;

B. After one year from the date of this Order, AMC Auditing, LLC may reapply for registration by filing an application pursuant to PCAOB Rule 2101;

C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Alexandria Yi, CPA is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);[32]

D. Pursuant to PCAOB Rule 5302(b), Alexandria Yi, CPA may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order; and

E. If Alexandria Yi, CPA is permitted to associate once again with a registered public accounting firm, pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date the bar is terminated, her role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Alexandria Yi, CPA shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in AS 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in AS 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead partner," "practitioner-in-charge," or "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; (5) assist the engagement partner under

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[32] As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Yi. 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."

AS 1201.04, *Supervision of the Audit Engagement*, in fulfilling his or her responsibilities under that auditing standard; (6) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in AS 1205, *Part of the Audit Performed by Other Independent Auditors*; or (7) serve, or supervise the work of another individual serving, as a professional practice director.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

December 3, 2020