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 Bo-Shiang Lien, CPA,

Respondent.

PCAOB Release No. 105-2022-009

May 24, 2022

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order"), the Public Company Accounting Oversight Board ("Board" or "PCAOB") is:

(1) barring Bo-Shiang ("Eric") Lien, CPA ("Lien" or "Respondent") from being associated with a registered public accounting firm;[1]

(2) imposing a $25,000 civil money penalty on Lien; and

(3) requiring that Lien complete 50 hours of continuing professional education ("CPE") (in addition to any CPE required in connection with any professional license) in subjects that are directly related to the audits of issuer financial statements under PCAOB standards.

The Board is imposing these sanctions on the basis of its findings that Lien violated PCAOB rules and auditing standards in connection with the audits by BF Borgers CPA PC ("BF Borgers" or the "Firm") of the financial statements of three issuers.[2]

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[1] Lien may file a petition for Board consent to associate with a registered public accounting firm after two years from the date of this Order.

[2] 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 Rel. 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.

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 as set forth below.[3]

III.

On the basis of Respondent's Offer, the Board finds that:[4]

A. Respondent

1. **Eric Lien** is a certified public accountant licensed by the state of Colorado (license no. 0030719). At all relevant times, Lien was an audit manager or director (non-equity partner) of BF Borgers and served as an engagement partner on issuer audits. Lien was, at all relevant times, 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. Issuers

2. Chineseinvestors.com, Inc. ("Chineseinvestors.com") is an Indiana corporation headquartered in San Gabriel, California. Its public filings disclose that, at all relevant times, it

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

[4] 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.

was a provider of Chinese-language financial information and also sold, among other things, industrial hemp-infused cosmetics and liquor in China. At all relevant times, Chineseinvestors.com was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

3. United Cannabis Corporation ("United Cannabis") is a Colorado corporation headquartered in Golden, Colorado. Its public filings disclose that, at all relevant times, it was a company focused on developing therapeutics related to the endocannabinoid system. It also owned intellectual properties related to growth, production, manufacture, marketing, management, utilization, and distribution of medical and recreational marijuana, and marijuana-infused products in the United States and the Cayman Islands. At all relevant times, United Cannabis was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

4. China Pharma Holdings, Inc. ("China Pharma") is a Nevada corporation headquartered in Haikou, Hainan Province, China. Its public filings disclose that, at all relevant times, the company manufactured and marketed generic and branded pharmaceutical and biochemical products primarily to hospitals and private retailers in China. At all relevant times, China Pharma was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

5. This matter concerns Respondent's violations of PCAOB rules and auditing standards on four audits of three issuers: the audit of the financial statements of Chineseinvestors.com for the fiscal year ("FY") ended May 31, 2019; the audit of the financial statements of United Cannabis for the FY ended December 31, 2018; and the audits of the financial statements of China Pharma for the FYs ended December 31, 2015 and 2016 (collectively, the "Audits"). Lien served as engagement partner on the Audits and authorized the issuance of the Firm's audit reports expressing unqualified opinions on those audits.

6. As detailed below, in performing the Audits, Lien failed to: (1) exercise due professional care and professional skepticism; (2) obtain sufficient appropriate audit evidence supporting significant accounts, including accounts designated as a fraud risk or a significant risk; and (3) comply with multiple other PCAOB auditing standards.[5]

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[5] An auditor's opinion that an issuer's financial statements are presented in conformity with the applicable reporting framework must be based on an audit performed in accordance with PCAOB standards. *See* AS 3101.07, *Reports on Audited Financial Statements* (applicable to audits for fiscal years ending on or before December 14, 2017); AS 3101.02, *The Auditor's Report on an Audit of Financial*

D. Lien Violated PCAOB Rules and Standards in Performing the Audits

7. 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 conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.[7]

8. PCAOB standards require that an auditor exercise due professional care in planning and performing an audit.[8] Due professional care requires that the auditor exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of audit evidence.[9]

9. Auditors are required to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the opinion expressed in the auditor's report, including obtaining reasonable assurance about whether the financial

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Statements When the Auditor Expresses an Unqualified Opinion (applicable to audits for fiscal years ending on or after December 15, 2017). PCAOB standards require an auditor to perform audit procedures sufficient to evaluate the issuer's adherence to generally accepted accounting principles ("GAAP"). *See, e.g.*, AS 1001.01, *Responsibilities and Functions of the Independent Auditor*. This Order's description of audit failures relating to GAAP departures in an issuer's financial statements necessarily reflects the Board's judgment concerning the proper application of GAAP. Any such description of GAAP departures, however, should not be understood as an indication that the Securities and Exchange Commission ("Commission") has considered or made any determination concerning the issuer's compliance with GAAP.

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); PCAOB Rule 3200, *Auditing Standards* (applicable to audits for fiscal years ending on or after December 31, 2016).

7 *See* AS 3101.07, *Reports on Audited Financial Statements* (applicable to audits for fiscal years ending on or before December 14, 2017); AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (applicable to audits for fiscal years ending on or after December 15, 2017).

8 *See* AS 1015.02, *Due Professional Care in the Performance of Work*.

9 *See id.* at .07; AS 2301.07, *The Auditor's Responses to the Risks of Material Misstatement*; AS 2401.13, *Consideration of Fraud in a Financial Statement Audit*.

statements are free of material misstatement, whether caused by error or fraud.[10] Auditors 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.[11] For significant risks, including fraud risks, the auditor should perform substantive procedures that are specifically responsive to the assessed risks.[12]

10. As described below, Lien violated these and other PCAOB standards in performing the Audits.

i. Lien Violated PCAOB Rules and Standards in the FY 2019 Chineseinvestors.com Audit

11. The Firm audited Chineseinvestors.com's FY 2019 financial statements and issued an audit report containing an unqualified audit opinion on those financial statements on August 29, 2019. Lien served as engagement partner and authorized the issuance of the audit report.

a. Lien Failed to Obtain Sufficient Appropriate Audit Evidence for Revenue

12. In FY 2019, Chineseinvestors.com disclosed that it adopted a new revenue recognition policy, and revised its accounting policies related to revenue recognition. Chineseinvestors.com reported total revenues for FY 2019 of approximately $6.5 million, which included approximately $4.2 million in revenue from sales of products, primarily liquor. During the audit, Lien and the engagement team became aware that Chineseinvestors.com's liquor sales had grown by over 1,000% from FY 2018 to FY 2019, with most of the FY 2019 sales occurring in the final months of the fiscal year. Lien and the engagement team assessed a significant risk and fraud risk related to improper revenue recognition. As described below, although Lien and the engagement team performed certain tests of details on a sample of Chineseinvestors.com's liquor sales, Lien violated multiple PCAOB standards in the Chineseinvestors.com audit with respect to addressing the fraud risk related to improper revenue recognition for liquor sales.

1. Lien Failed to Evaluate Whether Chineseinvestors.com's 2019 Liquor Sales Revenue Was Recognized in Accordance with GAAP

13. During FY 2019, Chineseinvestors.com recognized approximately $4 million in revenue from sales of liquor in China, which represented 62% of total revenues. Essentially all the company's liquor revenue was derived from sales to wholesale customers. When a

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10 *See* AS 1105.04, *Audit Evidence*; AS 2401.01.

11 *See* AS 2301.08.

12 *See id.* at .11, .13.

customer ordered liquor, Chineseinvestors.com purchased from its supplier the quantity of liquor to satisfy the customer's order and the supplier shipped the liquor directly to the company's customer. The company disclosed that it recognized revenue at the gross amount received for the liquor (*i.e.*, "gross basis"). In doing so, Chineseinvestors.com purported to be the principal seller of the liquor as opposed to an agent of the seller.

14. When another party is involved in an entity's provision of goods or services to a customer, the entity should determine whether the nature of its performance obligation is to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by the other party (that is, the entity is an agent).[13] If a company acts in the capacity of an agent as opposed to a principal seller, it is only entitled to recognize revenue in the amount of any fee or commission earned for arranging for the product to be provided to the end customer.[14]

15. Lien and the engagement team failed to evaluate whether Chineseinvestors.com's revenue was presented fairly, in all material respects, in conformity with GAAP.[15] More specifically, Lien and the engagement team failed to evaluate whether Chineseinvestors.com's performance obligation under its contracts with its wholesale customers was to provide the liquor itself or arrange for the liquor to be provided by the liquor suppliers. Moreover, Lien knew from his review of the audit work papers that the liquor suppliers shipped the liquor ordered by the company's wholesale customers directly to those customers after Chineseinvestors.com placed an order, evidence suggesting that Chineseinvestors.com was, in fact, acting as an agent of its suppliers and not as a principal seller. Despite being aware of these facts, Lien failed to evaluate whether Chineseinvestors.com's application of accounting principles was in conformity with the applicable financial reporting framework, in violation of PCAOB standards.[16]

2. Lien Failed to Obtain Sufficient Appropriate Audit Evidence to Support Product Sales Revenue Because the Number of Transactions Tested Was Insufficient

16. Lien planned substantive tests of details procedures using the firm's sample size calculation worksheet, which calculated a minimum sample size of 84 sales transactions

[13] *See* FASB ASC 606-10-55-36, *Revenue from Contracts with Customers*.

[14] *See* ASC 606-10-55-38; *see also* ASC 606-10-25-25.

[15] *See* AS 2810.30, *Evaluating Audit Results*.

[16] *See* AS 2810.30; AS 1015.07; AS 2110.12-.13, *Identifying and Assessing Risks of Material Misstatement*.

("planned sample size"). The planned sample size was calculated by taking into account the factors identified in AS 2315.23, *Audit Sampling*.[17]

17. However, Lien and the engagement team then decided to subject only 53 transactions, or 63% of the planned sample size, to potential tests of details ("actual sample size"). The actual sample size was not determined using any reasoned or informed basis. In determining the actual sample size, Lien and the engagement team failed to appropriately take into account the factors of AS 2315.23.

18. Moreover, 16 of the 53 transactions that Lien and the engagement team selected were recorded on Chineseinvestors.com's books at negative amounts (*i.e.*, a reduction to sales revenue). As Lien was aware, these transactions were sales returns. Lien and the engagement team failed to perform any audit procedures on the sales returns selections or evaluate the effect of these unexamined selections on the sample.[18] Excluding the unexamined sales returns, Lien and the engagement team performed tests of details on a sample of only 37 transactions, or 44% of the planned sample size ("effective sample size").

19. Lien reviewed the revenue testing work paper and, thus, knew the effective sample size was less than half of the planned sample size. Nevertheless, Lien failed to either (1) direct the engagement team to test additional transactions, or (2) evaluate whether the effective sample size provided sufficient audit evidence to meet the objective of the substantive tests of details procedures.[19] Lien thus failed to evaluate the audit evidence gathered by the engagement team with due professional care and professional skepticism.[20] Lien also failed to obtain sufficient appropriate audit evidence to support his conclusion that Chineseinvestors.com's product sales had occurred, in violation of PCAOB standards.[21]

3. Lien Failed to Obtain Sufficient Appropriate Audit Evidence that Liquor Sales Occurred

20. To test whether each sales transaction in the sample selected for testing was recorded in the proper period, Lien and the engagement team obtained third-party delivery

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17 Those factors include: (1) tolerable misstatement for the population; (2) allowable risk of incorrect assessment (based on assessments of inherent risk, control risk, and detection risk); and (3) the characteristics of the population, including the expected size and frequency of misstatements.

18 *See* AS 2315.25.

19 *See* AS 1105.22.

20 *See* AS 1015.07; AS 2301.07.

21 *See* AS 1015.07; AS 1105.04, .22; AS 2315.23, .25.

records (the "delivery notes"). The delivery notes did not include information about the title for the liquor shipped.

21. Lien knew that Chineseinvestors.com was not able to recognize revenue until it satisfied its contractual performance obligations. Based on management's representations, Lien believed Chineseinvestors.com's performance obligations were satisfied upon transfer of title from the company to the customer. However, as Lien was aware from his review of the work papers, audit evidence suggested Chineseinvestors.com never held the title of the liquor it sold to wholesale customers. Lien failed to resolve the inconsistent audit evidence and, therefore, violated PCAOB standards because he had no basis to conclude that Chineseinvestors.com's recorded wholesale liquor sales were recorded in the proper period.[22]

22. Further, for 25% of the sales transactions tested as part of the test of revenue details, the audit documentation identified the customer as a third-party shipping company, and not the actual customer. Lien reviewed the revenue test of details work paper, and thus knew that Chineseinvestors.com had identified a shipping company as the customer rather than the wholesale customer. However, Lien and the engagement team failed to perform any further procedures to understand who the ultimate wholesale customers were for these transactions or to validate that Chineseinvestors.com had contracts with those purported customers. Therefore, Lien and the engagement team had no basis to conclude that delivery notes were appropriate evidence to support revenue recognition. As a result, Lien failed to obtain sufficient appropriate audit evidence to support his conclusion that these sales transactions had occurred, in violation of PCAOB standards.[23]

4. Lien Failed to Obtain Sufficient Appropriate Audit Evidence that Chineseinvestors.com's Revenue from Product Sales Was Recorded at the Proper Value

23. To test whether each sales transaction in the sample selected for testing was recorded at the proper value, Lien and the engagement team relied on the third-party delivery notes. However, as Lien was aware, these delivery notes did not contain sales prices or any other evidence related to the amounts, or values, of the sales transactions. Lien and the engagement team failed to perform any procedures to determine whether the selected transactions were properly valued.

24. Lien reviewed the engagement team's tests of revenue details. Thus, he knew, or should have known, that he and the engagement team had failed to obtain any audit evidence to determine whether the selected revenue transactions were recorded at the proper value. As

[22] *See* AS 1105.29; AS 1015.07; AS 2805.04, *Management Representations.*

[23] *See* AS 1015.07; AS 1105.04, .29.

a result, Lien failed to obtain sufficient appropriate audit evidence to support his conclusion that Chineseinvestors.com's FY 2019 sales were properly valued, in violation of PCAOB standards.[24]

b. Lien Failed to Obtain Sufficient Appropriate Audit Evidence Supporting Cost of Product Sales

25. With respect to the $4.2 million in product sales in FY 2019, Chineseinvestors.com reported $3.5 million in cost of product sales. Lien and the engagement team assessed a significant risk for these cost of sales. Thus, Lien and the engagement team were required to perform substantive procedures to test this account.[25]

26. The only substantive procedure Lien and the engagement team performed to test the cost of product sales was to send confirmation requests to Chineseinvestors.com's two suppliers requesting a confirmation of total purchases for the year. However, only one of the company's suppliers responded to the confirmation request. Lien and the engagement team failed to perform any alternative procedures to test the cost of liquor sold during the year that was purportedly purchased from the second supplier, which totaled $2.2 million and represented 60% of total purchases in the year under audit.[26]

27. Because Lien failed to substantively test $2.2 million in product purchases, he failed to perform sufficient procedures in response to a significant risk and failed to obtain sufficient appropriate audit evidence supporting the cost of sales account, in violation of PCAOB standards.[27]

ii. Lien Violated PCAOB Rules and Standards in the FY 2018 United Cannabis Audit

28. The Firm issued an audit report dated March 28, 2019, containing an unqualified audit opinion on United Cannabis's FY 2018 financial statements. Lien served as engagement partner and authorized the issuance of the audit report.

29. In its 2018 Form 10-K, United Cannabis reported total assets of $12.9 million, of which approximately $4.8 million consisted of goodwill. United Cannabis's goodwill was

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[24] *See* AS 1015.07; AS 1105.04; AS 2301.11, .13.

[25] *See* AS 2301.11.

[26] *See* AS 2310.31, *The Confirmation Process* ("When the auditor has not received replies to positive confirmation requests, he or she should apply alternative procedures to the nonresponses to obtain the evidence necessary to reduce audit risk to an acceptably low level.").

[27] *See* AS 1015.07; AS 1105.04; AS 2301.11; AS 2310.31.

primarily associated with the July 14, 2017 acquisition of Prana Therapeutics, Inc. ("PTI"), a company that develops therapeutics for the oncology, neurology, and orthopedic markets.

30. Goodwill should be tested for impairment by the issuer at least annually, and whenever there is an indication that the goodwill may be impaired.[28] As Lien was aware, at year-end 2018, United Cannabis performed a qualitative assessment of whether it was more likely than not that the carrying value of PTI exceeded its fair value.[29] Lien also understood that, to support its impairment determination, management relied on a valuation report prepared by a third-party specialist. Lien knew that the third-party specialist was engaged by United Cannabis management to estimate the fair value of PTI based on the present value of PTI's projected future cash flows, and that this estimated fair value was highly dependent on data and assumptions provided by United Cannabis management.

31. During the 2018 audit, Lien assessed the valuation of goodwill as a "high risk" due to the risk of material misstatement related to potential impairment, thereby designating it as an area that required more extensive audit procedures than non-high-risk areas. Lien, however, failed to gather sufficient appropriate audit evidence to address the high risk that goodwill was potentially impaired as of December 31, 2018.

a. Lien Failed to Perform Sufficient Audit Procedures to Evaluate Management's Qualitative Assessment of Goodwill Impairment

32. In its Form 10-K, United Cannabis reported significant operating losses and negative cash flows from operations during 2017 and 2018, and a steady and significant decline in its common stock price. Lien was also aware that PTI experienced a loss of approximately $653,000 in 2018. In addition, Lien and the engagement team concluded that there was substantial doubt about United Cannabis's ability to continue as a going concern due to its recurring losses, illiquidity, and accumulated deficit.

33. Despite being aware of these qualitative factors indicating that goodwill was potentially impaired, Lien accepted management's contradictory representation that there were no relevant events or changes in circumstances that indicated its goodwill may be

[28] *See* FASB ASC 350-20-35-1, *Goodwill – Subsequent Measurement*.

[29] To comply with the annual impairment testing requirement under GAAP, an issuer is permitted to first assess certain qualitative factors to determine whether it is necessary to perform a two-step goodwill impairment test (*i.e.*, the qualitative assessment). If determined to be necessary, a two-step impairment test is then used to identify potential goodwill impairment and measure the amount of any impairment loss to be recognized. *See* ASC 350-20-35-3.

impaired.[30] Lien failed to perform any further procedures to investigate the basis for management's conclusion or evaluate its reasonableness.[31] As a result, Lien failed to perform sufficient appropriate audit procedures to address the risk that United Cannabis's goodwill was impaired.[32]

b. Lien Failed to Perform the Procedures Necessary to Use the Work of a Third-Party Specialist

34. To support its reported goodwill balance, United Cannabis management also relied on the valuation report prepared by a third-party specialist, which indicated there had been no significant changes in PTI's estimated fair value or underlying projections of future cash flows since the prior year. The report also stated that, to determine the fair value of PTI, the specialist relied on data and assumptions provided by United Cannabis management, namely the future cash flow projections, without the specialist performing any procedures to evaluate the reasonableness of this information.

35. PCAOB standards require the auditor to evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures.[33] The auditor is also required to test the data used to develop the fair value measurements and disclosures and evaluate whether the fair value measurements have been properly determined from such data and management's assumptions.[34] PCAOB standards further require that when using the work of a specialist, auditors should: (1) obtain an understanding of the methods and assumptions used by the specialist; (2) make appropriate tests of data provided to the specialist; and (3) evaluate whether the specialist's findings support the related assertions in the financial statements.[35]

36. Though Lien obtained the valuation report, he failed to perform any procedures to understand the work performed or assumptions used by the third-party specialist in

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[30] *See* AS 2805.04 ("If a representation made by management is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation made.").

[31] *See* AS 1015.07; AS 1105.29; AS 2805.04.

[32] *See* AS 2301.08.

[33] *See* AS 2502.28, *Auditing Fair Value Measurements and Disclosures* (applicable to audits for fiscal years ending on or before December 14, 2020).

[34] *See id.* at .39.

[35] *See* AS 1210.12, *Using the Work of a Specialist* (applicable to audits for fiscal years ending on or before December 14, 2020).

determining the fair value of United Cannabis's ownership interest in PTI, and to test the data provided by management and relied on by the specialist, including ten years of cash flow projections. As a result of these failures, Lien violated PCAOB standards.[36]

iii. Lien Violated PCAOB Rules and Standards in the FY 2015 and FY 2016 China Pharma Audits

37. The Firm audited China Pharma's FY 2015 and FY 2016 financial statements concurrently and issued an audit report containing an unqualified audit opinion on those financial statements on March 31, 2017. Lien served as engagement partner and authorized the issuance of the audit report.

a. Lien Failed to Obtain Sufficient Appropriate Audit Evidence for Intangible Assets

38. China Pharma's public filings disclosed that the largest asset on its 2015 and 2016 balance sheets was Advances for the Purchase of Intangible Assets ("Advances"), which represented cash payments made to independent laboratories for the patent rights and development costs of 20 medical formulas ("products"). Advances represented approximately $42 million (44%) and $35.5 million (45%) of China Pharma's total assets as of December 31, 2015 and 2016, respectively. Lien and the engagement team identified the valuation of Advances as a significant risk.

39. During the 2015 and 2016 audits, Lien knew that China Pharma had experienced delays in receiving Chinese government approval for its products purportedly because of uncertainties about new regulations. Lien also knew that China Pharma had suspended the development of its products in FY 2016 because of the uncertainties surrounding these new regulations. As a result, Lien knew that China Pharma was unable to determine when, if ever, any of its products would receive government approval.

40. Lien was required to evaluate the reasonableness of China Pharma's estimates related to the potential impairment of Advances as of both December 31, 2015 and December 31, 2016.[37] The procedures Lien and the engagement team performed, however, failed to provide sufficient appropriate audit evidence to support Lien's conclusions on the Advances.

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[36] *See* AS 1015.07; AS 1105.29; AS 2502.28 (as applicable to audits for fiscal years ending on or before December 14, 2020); AS 1210.12 (as applicable to audits for fiscal years ending on or before December 14, 2020).

[37] *See* AS 2501.04, .07, *Auditing Accounting Estimates* (as applicable to audits for fiscal years ending on or before December 14, 2017).

41. First, Lien and the engagement team knew that China Pharma had recognized full impairment on the Advances with at least three laboratories in FY 2016, but failed to sufficiently evaluate whether those impairments should have instead been recognized in FY 2015. China Pharma management represented to Lien and the engagement team that the impairments resulted from new Chinese regulations in FY 2016. Lien relied on this representation despite inconsistent information in China Pharma's accounting records suggesting the impairments in connection with at least two of the three laboratories were actually caused by concerns in 2015 about the financial insolvency of the laboratories.

42. Second, Lien and the engagement team failed to perform procedures necessary to resolve inconsistent audit evidence. Management's FY 2016 impairment analysis assumed that, although development of the products was suspended indefinitely, the suspension would not affect the valuation of the Advances because it would not have a significant impact on the projected future cash flows for the products. This assumption was inconsistent with three conditions of which Lien was aware at the time of the audit: (a) China Pharma's competitors were developing similar products and delays by the company could harm its future sales; (b) although the analysis assumed all medical formulas would receive government approval, this was not assured; and (c) the analysis ignored the risk that the laboratories developing the new products might become insolvent and be unable to fulfill their contractual obligations. Lien and the engagement team failed to perform audit procedures necessary to resolve these inconsistencies.[38]

43. Third, Lien and the engagement team failed to obtain and test an impairment analysis for FY 2015. Lien conducted the FY 2015 and FY 2016 audits concurrently and assessed a significant risk relating to the valuation of Advances for both years. Lien planned to address this risk in both years by testing China Pharma's impairment analyses. Although Lien obtained an analysis as of December 31, 2016, he failed to obtain one as of December 31, 2015. Lien's justification for this failure was a belief that the results of management's analyses as of December 31, 2015 and 2016 would be similar, despite the fact that China Pharma suspended the development of its products in 2016. Lien failed to obtain any audit evidence beyond management representation to support this belief.[39]

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[38] *See* AS 1105.29.

[39] *See id.* at .17, note.

44. As a result, Lien failed to obtain sufficient appropriate audit evidence in the 2015 and 2016 China Pharma audits to determine whether Advances were properly valued, in violation of PCAOB standards.[40]

b. Lien Failed to Obtain Sufficient Appropriate Evidence for Revenue

45. China Pharma reported revenue of approximately $15.6 million for the year ended December 31, 2016, and approximately $20.4 million for the year ended December 31, 2015. At the end of each year, the company also reported more than $15 million in outstanding customer receivables that were doubtful of collection. For both audits, Lien identified fraud risks related to improper revenue recognition.

46. Lien failed to evaluate in either audit whether China Pharma's revenue was presented fairly, in all material respects, in conformity with GAAP.[41] Specifically, Lien knew that, among other things, an issuer could not recognize revenue under GAAP until the seller's price to the buyer was fixed or determinable.[42] Lien also knew that China Pharma had a history of using a collection discount program under which outstanding invoices were discounted to encourage customer payments. Lien did not, however, address this evidence that the sales invoice price recognized as revenue by China Pharma might not be the actual price to the buyer. As a result, Lien failed to evaluate whether China Pharma's reported revenue was presented fairly, in conformity with GAAP.[43]

47. Additionally, in both audits, Lien and the engagement team's procedures to assess the valuation of revenue were limited to inspecting a selection of sales invoices. These procedures were flawed for two reasons. First, because of China Pharma's collection discount program, the invoices did not provide evidence of the actual price to the customer. Second, Lien and the engagement team had no basis to evaluate whether the selected invoices had been paid in full because, as they were aware, China Pharma used a first-in, first-out method to apply customer payments to the oldest outstanding invoice. As a result, Lien failed to obtain sufficient appropriate evidence to determine whether revenue was recorded at the appropriate value, in violation of PCAOB standards.[44]

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40 *See id.* at .04, .17, note, .29; AS 2301.11; AS 2501.04, .07 (as applicable to audits for fiscal years ending on or before December 14, 2017); AS 1015.07.

41 *See* AS 2810.30.

42 *See* FASB ASC 605-10, *Revenue Recognition* (superseded by FASB ASC 606, *Revenue from Contracts with Customers*, for public companies for annual periods beginning after December 15, 2017).

43 *See* AS 2810.30.

44 *See* AS 1015.07; AS 1105.04; AS 2301.11, .13.

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 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), Bo-Shiang ("Eric") Lien 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);[45]

B. After two years from the date of this Order, Bo-Shiang ("Eric") Lien may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;

C. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of $25,000 is imposed on Bo-Shiang ("Eric") Lien. All funds collected by the Board as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act. Respondent shall pay the foregoing civil money penalty as follows: Respondent shall pay $5,000 within ten days of the issuance of this Order, an additional $2,500 within 90 days of the issuance of this Order, an additional $2,500 within 180 days of the issuance of this Order, an additional $2,500 within 270 days of the issuance of this Order, an additional $2,500 within 360 days of the issuance of this Order, an additional $2,500 within 450 days of the issuance of this Order, an additional $2,500 within 540 days of the issuance of this Order, an additional $2,500 within 630 days of the issuance of this Order, and an additional $2,500 within 720 days of the issuance of this Order, making each payment by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover

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

letter, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006. ***Respondent understands that failure to pay the civil money penalty described above may alone be grounds to deny any petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm***; and

D. Pursuant to Section 105(c)(4)(F) of the Act and PCAOB Rule 5300(a)(6), Bo-Shiang ("Eric") Lien is required to complete, within two years from the date of this Order, 50 hours of professional education and training in subjects that are directly related to the audits of issuer financial statements (such hours shall be in addition to, and shall not be counted in, the continuing professional education he is required to obtain in connection with any professional license).

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

May 24, 2022