

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 72557 / July 8, 2014**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3565 / July 8, 2014**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15965**

**In the Matter of**

**CHILD, VAN WAGONER &  
BRADSHAW, PLLC, RUSSELL  
E. ANDERSON, CPA, and  
MARTY VAN WAGONER,  
CPA,**

**Respondents.**

**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**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Child, Van Wagoner & Bradshaw, PLLC (“CVB”), Russell E. Anderson, CPA (“Anderson”), and Marty Van Wagoner, CPA (“Van Wagoner”) (collectively “Respondents”), pursuant to Sections 4C<sup>1</sup> and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule

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<sup>1</sup> 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 thereunder.

102(e)(1)(ii) of the Commission's Rules of Practice and also against CVB and Anderson pursuant to Rule 102(e)(1)(iii) of the Commission's Rules of Practice.<sup>2</sup>

## II.

After an investigation, the Division of Enforcement alleges:

### SUMMARY

1. Between March 2010 and June 2011, CVB, an accounting firm based in Salt Lake City, Utah, and Anderson and Van Wagoner, two of its partners, served as the independent auditors of Yuhe International, Inc. ("Yuhe"), a China-based company whose stock was previously registered with the Commission and traded on Nasdaq. These proceedings arise from Respondents' failures to comply with Public Company Accounting Oversight Board ("PCAOB") Auditing Standards ("PCAOB Standards") in their 2009 and 2010 audits of Yuhe. Among other failures, CVB and Anderson failed to: (a) properly plan the audits and supervise assistants; (b) properly assess audit risk and materiality; (c) properly consider fraud and illegal acts; and (d) act with due professional care. In his role as engagement quality review partner, Van Wagoner failed to act with due professional care because he was aware, or should have been aware, of audit deficiencies but did not address them. Additionally, by virtue of his failure to comply with professional standards during Yuhe's 2010 audit, Van Wagoner also violated the engagement quality review standard set forth in AS 7.

2. The Respondents' failures in the 2009 audit arose principally because CVB and Anderson effectively performed no audit work of their own and instead relied on the audit work papers of Yuhe's prior auditor which had begun the 2009 audit, but then abruptly resigned without completing it. Even though neither CVB nor Anderson planned, performed, or supervised the prior firm's audit work, they took that firm's work papers, performed at best a cursory review of them, and then issued an audit report containing an unqualified opinion on Yuhe's financial statements—all within only approximately three weeks of accepting the Yuhe engagement.

3. CVB and Anderson also performed a deficient audit of Yuhe's 2010 financial statements. During planning for the 2010 audit, CVB and Anderson assessed Yuhe as lacking effective internal controls such that no controls reliance could be utilized in performing the audit. Specifically, they documented within CVB's planning work papers that "the auditor is concerned about the risk of material misstatement" due to Yuhe's "inability to perform proper procedures necessary to produce a reliable financial statement." They also noted that Yuhe personnel appeared to lack the experience and ability to create financial statements using accounting principles generally accepted in the United States ("US GAAP"). Yet, despite this assessment, CVB and Anderson failed to implement auditing procedures that addressed the risks identified.

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<sup>2</sup> Rule 102(e)(1)(ii) and (iii) provide, in pertinent part, that: (ii) "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;" and (iii) "to have willfully violated, ...any provision of the Federal securities laws or the rules and regulations thereunder."

They performed an audit based upon the basic audit procedures within their prescribed checklists without modification, failed to extend procedures to address the known risk of material misstatement, and relied heavily on management representations. They also failed to provide meaningful direction and supervision to the foreign audit staff CVB hired to perform fieldwork in China (hereafter, “Foreign Audit Staff”). Despite these deficiencies, and without the application of due professional care in his role as engagement quality reviewer, Van Wagoner provided his concurrence on the issuance of the audit report.

## RESPONDENTS

4. Child, Van Wagoner & Bradshaw, PLLC, located during the pertinent period in Salt Lake City, Utah, is a Utah professional limited liability company and public accounting firm formerly registered with the PCAOB. CVB acted as Yuhe’s independent auditor initially from March 12, 2008 to December 7, 2009, and then again from March 9, 2010 to June 17, 2011. CVB performed public company audits<sup>3</sup> of, and issued audit reports containing unqualified opinions on, the financial statements of Yuhe for Yuhe’s fiscal years ending December 31, 2008, December 31, 2009, and December 31, 2010. CVB resigned as Yuhe’s independent auditor on June 17, 2011, following public disclosure by Yuhe that a purported business acquisition by Yuhe had, in fact, never occurred. During the time of its Yuhe audits, CVB had four audit partners and two non-audit partners. CVB ceased to do public company audits as of August 1, 2012. CVB is no longer registered with the PCAOB, but remains “active” and in “good standing” in the records of the State of Utah Division of Corporations and Commercial Code.

5. Russell E. Anderson, age 53, is a Certified Public Accountant (“CPA”) licensed to practice in Utah. Anderson served as CVB’s engagement partner for the 2008, 2009, and 2010 Yuhe audits and was responsible for making all significant decisions regarding the engagements. During 2009 and 2010, Anderson was also CVB’s “quality control partner.” He is a resident of West Valley City, Utah.

6. Marty Van Wagoner, age 52, is a CPA licensed to practice in Utah. Van Wagoner served as CVB’s engagement quality review partner for the 2008, 2009 and 2010 audits of Yuhe. He is a resident of Eagle Mountain, Utah.

## RELEVANT ENTITY

7. Yuhe International, Inc. is a Nevada corporation whose principal offices are located in Weifang, Shandong Province, People’s Republic of China.<sup>4</sup> Yuhe sells day-old chicken broilers, *i.e.*, chickens that are bred and raised for meat production, and claims to be the largest

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<sup>3</sup> A public company audit is defined as an engagement to audit the financial statements of an “issuer” as that term is defined in Section 3(a)(8) of the Exchange Act.

<sup>4</sup> On October 18, 2013, the Commission filed a civil injunctive action against Yuhe and its Chief Executive Officer (“CEO”), alleging violations of the antifraud provisions of the Securities Act of 1933 and the Exchange Act, as well as the books and records, internal controls, and reporting provisions of the Exchange Act. *SEC v. Yuhe Int’l, Inc. and Gao Zhentao*, Civil Action No. 1:13-CV-01598-RCL (D.D.C., filed Oct. 18, 2013).

supplier of day-old broilers in China. All of Yuhe's operations are carried out in China. Its common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act, and was traded on the Nasdaq Capital Market. On October 20, 2010, Yuhe completed a registered public offering in the United States of more than four million shares of its common stock at a price of \$7 per share, raising approximately \$27 million. On July 21, 2011, Nasdaq suspended trading of Yuhe's common stock, and, on December 16, 2011, Nasdaq filed a Form 25 with the Commission to delist the common stock, which is now quoted on OTC Link. Yuhe's fiscal year ends on December 31.

## FACTS

### *Background*

8. CVB audited Yuhe's financial statements for its fiscal year ending December 31, 2008, and issued an audit report containing an unqualified opinion. In order to perform field work in China for this audit, CVB contracted with accounting personnel in a Shanghai, China independently owned member firm of an international public accounting network firm (hereafter, "Shanghai Office"). In conducting Yuhe's 2008 audit, CVB did not place any reliance on Yuhe's internal controls due to CVB's assessment that Yuhe's internal controls were ineffective. As a result, CVB conducted a fully substantive audit and did not reduce any substantive testing in its audit procedures based upon assessment or testing of internal controls.

9. CVB continued its engagement as Yuhe's auditor for Yuhe's 2009 fiscal year, and conducted interim reviews of Yuhe's financial statements for that fiscal year's first, second, and third quarters. However, in late 2009 during Yuhe's fourth fiscal quarter, the Shanghai Office was acquired by another international public accounting firm (hereafter, the "Acquiring Firm").

10. Following this acquisition, on December 7, 2009, the Audit Committee of Yuhe's Board of Directors appointed the Acquiring Firm as Yuhe's independent auditor. Under the engagement agreement, the Acquiring Firm was to perform the 2009 year-end audit and opine on the 2009 financial statements. Thereafter, from December 2009 through February 2010, the individuals who were formerly the Shanghai Office personnel working on Yuhe's audits, but now employees of the Acquiring Firm, planned and executed the Yuhe audit under the Acquiring Firm's supervision and in accordance with the Acquiring Firm's audit approach.

11. During its audit procedures and fieldwork, the Acquiring Firm identified in Yuhe's books and records, as of February 2010, ongoing related party transactions which Yuhe had earlier asserted in a public filing would be discontinued by December 31, 2009. In the prior year, Yuhe's management had concluded that the related party transactions constituted violations of Section 402 of the Sarbanes-Oxley Act of 2002 and that a material weakness existed over the lack of review and approval of related party loans, due to Yuhe's management permitting these transactions without Board of Director approval. On March 5, 2010, the Acquiring Firm resigned from the engagement, and Yuhe's Form 8-K filing cited the prohibited related party loan, the material weakness over the review and approval of such loans, and a material weakness related to Yuhe's inability to properly close its books as the reasons for the Acquiring Firm's resignation. At the

time of its resignation, the Acquiring Firm's audit field work for the 2009 audit of Yuhe was incomplete.

12. Yuhe's due date for filing its 2009 Form 10-K with the Commission was March 31, 2010, less than a month after the Acquiring Firm's resignation. With such a short time period before its filing deadline, Yuhe approached CVB to return as its independent auditor and complete the 2009 audit. Respondents accepted Yuhe's request and, on March 9, 2010, CVB re-engaged as Yuhe's independent auditor. Only twenty-one days later, on March 30, 2010, Anderson, with Van Wagoner's concurrence, issued CVB's audit report containing an unqualified opinion on Yuhe's financial statements for the 2009 fiscal year.

#### *CVB and Anderson's 2009 Audit of Yuhe*

13. Auditing standards require an auditor to adequately plan and perform an audit and properly supervise assistants. AU § 311.01.<sup>5</sup> Audit planning involves developing an overall strategy for the expected conduct and scope of the audit. The nature, extent, and timing of planning vary with the size and complexity of the entity, experience with the entity, and knowledge of the entity's business. In planning the audit, the auditor should consider, among other matters, the entity's business, accounting policies and procedures, and planned assessed level of control risk. AU § 311.03. Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives are accomplished. AU § 311.01, .11-.13. Elements of supervision include, among others, instructing assistants, keeping informed of significant problems encountered, and reviewing the work performed. AU § 311.11-.13.

14. After reengaging as Yuhe's auditor for the 2009 audit, CVB and Anderson did not perform their own audit of Yuhe. Instead, CVB and Anderson sought and obtained the audit work papers of the Acquiring Firm from its incomplete fieldwork for the short period it was Yuhe's auditor. Between approximately March 9 and March 30, 2010, CVB's acting audit manager for the 2009 Yuhe audit, a senior associate at CVB who was not a CPA, collected and reviewed the incomplete audit work papers of the Acquiring Firm. The acting audit manager did not request that any additional audit procedures be performed, and did not provide review notes for additional clarification or documentation to be added to the substantive audit procedures. In fact, no additional meaningful substantive audit procedures were performed for the Yuhe audit by CVB or Anderson or anyone acting at their direction.

15. As a result of not performing their own audit of Yuhe, neither CVB nor Anderson participated in the planning, execution, or supervision of any audit procedures performed for Yuhe's 2009 audit. Neither CVB nor Anderson formulated a specific audit plan for Yuhe's 2009 audit, or conducted formal audit planning meetings. Moreover, neither CVB nor Anderson made sufficient inquiry into Yuhe's business, recent developments, accounting policies and procedures, or control risk. Additionally, CVB and Anderson did not provide direction or guidance to the accounting staff in China who performed the audit field work.

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<sup>5</sup> References to auditing standards in this Order are to PCAOB Standards in effect at the time the audit work was performed.

16. The auditor should consider audit risk and materiality both in (a) planning the audit and designing auditing procedures and (b) evaluating whether the financial statements taken as a whole are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The auditor should consider audit risk and materiality in the first circumstance to obtain sufficient competent evidential matter on which to properly evaluate the financial statements in the second circumstance. AU § 312.12.

17. As a result of not performing their own audit of Yuhe, neither CVB nor Anderson participated in assessing audit risk or materiality for Yuhe's 2009 audit. CVB and Anderson simply accepted the assessment of materiality that the Acquiring Firm had documented without any consideration of how the amounts were established or if those amounts were appropriate. As part of the work that CVB and Anderson had done for the quarterly reviews, there was no planning or assessments documented that correspond to the procedures that were ultimately performed.

18. The audit approach used by the Acquiring Firm for Yuhe's 2009 audit differed significantly from that of CVB and Anderson's audit approach in the 2008 audit of Yuhe. For the 2009 audit, the Acquiring Firm's audit approach contemplated an intended reliance on Yuhe's internal controls which, if effective, would have allowed the Acquiring Firm to reduce its substantive testing. However, for the 2008 audit, CVB and Anderson had assessed Yuhe's internal control over financial reporting as weak to the point of planning to obtain no audit comfort from testing them. Further, the testimony of Anderson shows that he and CVB continued to place no reliance on controls for the 2009 audit. When CVB re-engaged as Yuhe's auditor, CVB and Anderson failed to adjust the audit approach used by the Acquiring Firm, or explain in their work papers why reliance on Yuhe's internal controls was appropriate.

19. Auditing standards require an auditor to plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. AU § 316.01. Among other things, members of the audit team should discuss the potential for material misstatement due to fraud.. Discussions should include an exchange of ideas or "brainstorming" among the audit team members, including the auditor with final responsibility for the audit, about how and where they believe the entity's financial statements might be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated. AU § 316.14. Auditing standards require an auditor to make inquiries of management and others within the entity to obtain their views about the risks of fraud and how they are addressed. AU §316.14-.27.

20. By not planning or performing the 2009 audit of Yuhe, CVB and Anderson did not seek to obtain reasonable assurance that Yuhe's financial statements were free of material misstatement, whether by error or fraud. CVB and Anderson did not consider the risks of material misstatement due to fraud at Yuhe, did not meet to discuss the susceptibility of Yuhe's financial statements to material misstatement due to fraud, and did not inquire of Yuhe management or its employees about fraud in connection with CVB and Anderson's issuance of its 2009 audit report.

21. AU § 317 notes that audit procedures applied for the purpose of forming an opinion on the financial statements may bring possible illegal acts to the auditor's attention. Examples of these procedures include reading minutes; inquiring of the client's management and legal counsel concerning litigation, claims, and assessments; and performing substantive tests of details of transactions or balances. Auditing standards require an auditor to make inquiries of management concerning the client's compliance with laws and regulations, including, where applicable, the client's policies relative to the prevention of illegal acts. AU § 317.08.

22. There is no documentary evidence suggesting any inquiries by CVB or Anderson of Yuhe's management concerning Yuhe's policies related to the prevention of illegal acts and compliance with laws and regulations. Here, such inquiries would have been appropriate, given (i) the resignation of the prior auditor; (ii) the continued existence of prohibited loans; (iii) the number and type of audit adjustments included in the Acquiring Firm's incomplete audit work papers that CVB obtained, which indicated a lack of knowledge within Yuhe of financial reporting practices common to the United States; (iv) the weak or non-existent control environment; and (v) the use of personal bank accounts for Yuhe payments, which would have indicated higher risk and potentially triggered additional procedures and inquiries.

23. Auditing standards also require an auditor to consider the risks surrounding related party transactions. AU § 334. An auditor should obtain an understanding of management responsibilities, the relationship of each component to the total entity, the business purpose served by the various components of the entity, and the controls over management activities. AU § 334.05. After identifying related party transactions, the auditor should apply the procedures he considers necessary to obtain satisfaction concerning the purpose, nature, and extent of these transactions and their effect on the financial statements. The procedures should be directed toward obtaining and evaluating sufficient competent evidential matter and should extend beyond inquiry of management. AU § 334.09.

24. CVB and Anderson did not consider the risks surrounding related party transactions during the 2009 Yuhe audit. Instead, CVB and Anderson relied upon work performed and assessments made by the Acquiring Firm whose work papers were incomplete. CVB and Anderson did not inquire of management independently as part of their audit, nor did they hold any discussions with the Audit Committee concerning related party transactions.

25. Under auditing standards, the observation of inventories is mandated as a generally accepted auditing procedure. AU § 331.01. CVB and Anderson did not perform an inventory observation during the 2009 audit of Yuhe. An inventory observation was done by the Acquiring Firm. Moreover, when the Acquiring Firm performed the observation, it only performed limited counts because it placed some reliance on Yuhe's internal controls relating to inventory.

26. Auditing standards require auditors to exercise due professional care throughout the audit. AU § 230. Due professional care requires that the auditor exercise professional skepticism, which means a questioning mind and a critical assessment of audit evidence. Moreover, gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit,

professional skepticism should be exercised throughout the audit process. By failing to adhere to the auditing standards set forth above, CVB and Anderson failed to exercise due professional care during the 2009 Yuhe audit.

27. Van Wagoner, as engagement quality review partner, also failed to exercise due professional care in Yuhe's 2009 audit. Van Wagoner had responsibility for reviewing the audit work for the 2009 audit. He was aware that CVB and Anderson had not planned, conducted, or supervised an audit of Yuhe and had instead taken, and were relying upon, the work papers of a different audit firm. Despite having this knowledge, Van Wagoner concurred in CVB's issuance of an audit report containing an unqualified opinion on Yuhe's financial statements for fiscal year 2009.

28. Under the third standard of field work, sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit. AU § 326.01. CVB and Anderson did not contribute or provide supervision in the inspection, observation, inquiry, or confirmation processes of the 2009 audit of Yuhe—all of which were done by the Acquiring Firm.

29. Audit documentation is the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations in the auditor's report. Audit documentation also 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. Among other things, audit documentation includes records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the auditor. AS 3, ¶ 2.

30. CVB and Anderson failed to properly document the 2009 audit. They failed to document how they accepted and utilized the work of another firm, how they were able to supervise assistants performing audit procedures before CVB was engaged on the audit, how they obtained evidence, and how they reached conclusions.

31. Obtaining representations from management is required for audits performed in accordance with PCAOB Standards, as outlined in AU § 333. While such representations are part of the evidence obtained by an independent auditor, they cannot substitute for the application of the auditing procedures needed to afford a reasonable basis for an opinion regarding the financial statements under audit. AU § 333.02. In the 2009 audit of Yuhe, CVB and Anderson obtained written representations without applying auditing procedures which would have been necessary to form a basis for their opinion.

#### *CVB and Anderson's 2010 Audit of Yuhe*

32. Yuhe engaged CVB to conduct an audit of its 2010 financial statements. CVB and Anderson documented that Yuhe presented a significant risk of material misstatement because Yuhe lacked the ability to perform the proper procedures necessary to produce reliable financial statements, and Yuhe personnel lacked the experience and ability to create financial statements in

accordance with US GAAP, understand Yuhe's transactions, and account for them properly. Accordingly, citing a weak controls environment, CVB and Anderson planned their audit assuming no controls reliance.

33. For the 2010 audit, CVB *increased* the planning materiality threshold to over 230% of the prior year's number, even though CVB and Anderson continued to believe that they could not rely on Yuhe's internal controls and there was not a proportionate increase in net income. Additionally, CVB and Anderson did not document their rationale for increasing materiality in 2010.

34. Despite assessing a weak controls environment, CVB and Anderson's approach to the audit consisted mostly of a perfunctory completion of checklists and certain substantive testing procedures, along with a review of those checklists by CVB and Anderson and did not include a proper consideration of risk and materiality.

35. For the 2010 Yuhe audit, CVB and Anderson contracted with personnel in China to perform fieldwork on CVB's behalf. However, CVB and Anderson did not play a substantive role in audit supervision and, instead, sent checklists to the Foreign Audit Staff to use without specific instructions, detailed work plans, or appropriate modifications based on identified risks. CVB and Anderson failed to provide the Foreign Audit Staff specific guidance on the procedures to be performed, the audit objectives to be accomplished, or the need to maintain proper audit documentation in accordance with AU § 311 and AS 3.

36. CVB's audit manager gave the work papers created by the Foreign Audit Staff only a cursory review with no follow up or substantive dialogue as to their content or findings. Neither CVB nor Anderson questioned the substantive work performed by the Foreign Audit Staff or provided any review comments or requests for additional procedures. CVB and Anderson failed to comply with the provisions of AU § 311 as outlined in paragraph 13.

37. Whenever the auditor has concluded that there is significant risk of material misstatement of the financial statements, the auditor should consider this conclusion in determining the nature, timing, or extent of procedures; assigning staff; or requiring appropriate levels of supervision. The knowledge, skill, and ability of personnel assigned significant engagement responsibilities should be commensurate with the auditor's assessment of the level of risk for the engagement. Ordinarily, higher risk requires more experienced personnel or more extensive supervision by the auditor with final responsibility for the engagement during both the planning and the conduct of the engagement. Higher risk may cause the auditor to expand the extent of procedures applied, apply procedures closer to or as of year end, particularly in critical audit areas, or modify the nature of procedures to obtain more persuasive evidence. AU § 312.17.

38. CVB and Anderson documented during the fraud risk discussion concerns about the risk of material misstatement due to Yuhe's inability to perform proper procedures necessary to produce reliable financial statements. Despite CVB and Anderson having assessed Yuhe's internal controls as ineffective and its personnel as lacking in experience to produce US GAAP

financial statements, CVB and Anderson failed to properly consider the risk of material misstatement and design appropriate audit procedures to address the identified risks.

39. CVB and Anderson failed to properly consider the possibility of fraud or modify and extend the audit procedures based on such considerations in 2010. CVB and Anderson also identified as a risk the use of personal bank accounts to transact company business and the risk of personal funds being intermingled with business funds. To address the risk identified, CVB and Anderson assigned two Hong Kong based individuals on the Foreign Audit Staff to perform procedures to address these risks. However, neither CVB nor Anderson supervised or reviewed the procedures carried out by these two individuals. AU § 312.17 states that higher risk requires more experienced personnel or more extensive supervision by the auditor with final responsibility for the engagement during both the planning and the conduct of the engagement. AU § 316.01 requires an auditor to plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. By not properly addressing the risks that were identified, or supervising the staff assigned to the task, CVB and Anderson failed to properly consider and address the risk associated with fraud on the financial statements.

40. Even though CVB and Anderson assessed Yuhe's internal controls as ineffective and its personnel as lacking in experience to produce US GAAP financial statements, CVB and Anderson relied on discussions with management by the Foreign Audit Staff and on evidence supplied by management throughout their audit as their sole basis for audit evidence in certain areas. CVB and Anderson's overreliance on management's representations, especially in light of their assessment of management's abilities, was inappropriate. While such representations from management are part of the evidential matter the independent 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. AU § 333.02.

41. In late March 2011, CVB and Anderson completed Yuhe's 2010 audit and issued an audit report containing an unqualified opinion on Yuhe's financial statements for fiscal year 2010.

42. Under the auditing standard governing engagement quality review which was effective for Yuhe's 2010 audit, the engagement quality reviewer should evaluate the significant judgments made by the engagement team and the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report. AS 7, ¶ 9. The engagement quality reviewer should evaluate the significant judgments that relate to engagement planning, including the consideration of the auditing firm's recent engagement experience with the company and risks identified in connection with the firm's client acceptance and retention process, the consideration of the company's business, recent significant activities, and related financial reporting issues and risks, and the judgments made about materiality and the effect of those judgments on the engagement strategy. AS 7, ¶ 10. To evaluate such judgments and conclusions, the engagement quality reviewer should, to the extent necessary to satisfy the requirements, hold discussions with the engagement partner and other members of the engagement team and review documentation. AS 7, ¶ 9. In an audit, the firm may grant permission to the client to use the

engagement report only after the engagement quality reviewer provides concurring approval of issuance. AS 7, ¶ 13.

43. Van Wagoner failed to fulfill the requirements of AS 7 for Yuhe's 2010 audit. Specifically, the work papers do not evidence any communications between the audit team and Van Wagoner throughout the year or during the audit process. The emails among team members show that the vast majority of Van Wagoner's communications appear perfunctory and lacking in substantive information or commentary. There is no evidence that he reviewed or evaluated the audit planning process, the assessment of materiality, or the consideration and assessment of fraud risks in a manner that would fulfill professional responsibilities.

#### *Yuhe's Public Offering and Fraud*

44. On June 2, 2010, Yuhe filed its Form S-3 Registration Statement and Prospectus with the Commission, which became effective on June 23, 2010. On October 19, 2010, Yuhe filed its Preliminary Prospectus Supplement, and, on October 20, 2010, it filed its Final Prospectus Supplement. CVB's audit report containing an unqualified opinion for 2009 was included in those filings, as each incorporated Yuhe's 2009 Form 10-K. From October 20, 2010 to November 2, 2010, Yuhe conducted a public offering, selling 4.14 million newly issued shares of common stock at a price of \$7.00 per share, and receiving net proceeds in excess of \$27 million.

45. On December 31, 2009, and January 4, 2010, Yuhe filed Forms 8-K announcing that on December 24, 2009, it had entered into an agreement with Waifang Dajiang Corporation to purchase thirteen breeder farms for an aggregate price of approximately \$15.2 million. Prior to the acquisition, Yuhe owned only fourteen breeder farms, which meant the acquisition would increase Yuhe's capacity by 60%. From January 2010 through June 2011, in press releases and filings with the Commission, Yuhe provided numerous updates concerning the status of the acquired farms. However, on June 17, 2011, Yuhe hosted a conference call during which Yuhe disclosed for the first time that the acquisition had never been completed and that the funds had, instead, been placed in a private account controlled by the CEO. On the same day shortly after the conference call, CVB resigned as Yuhe's independent auditor, stating that reliance should no longer be placed on its previously issued audit report for 2010.

## VIOLATIONS

### *Section 4C of the Exchange Act and Rule 102(e) of the Commission's Rules of Practice*

46. As a result of the conduct described above, Respondents 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. Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) provide, in pertinent part, that the Commission may censure or 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. Section 4C(b) and Rule 102(e)(1)(iv) define improper professional conduct with respect to persons licensed to practice as accountants.

47. Under Section 4C(b) and Rule 102(e)(1)(iv)(B), the term “improper professional conduct” means one of two types of negligent conduct: (1) a single instance of highly unreasonable conduct in circumstances for which heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct that indicate a lack of competence.

48. Respondents’ failures to abide by PCAOB Standards during the 2009 and 2010 Yuhe audits constitute repeated instances of unreasonable conduct. Additionally, the actions of CVB and Anderson during the 2009 Yuhe audit constitute a single instance of highly unreasonable conduct in circumstances in which heightened scrutiny was warranted. As a result, the Respondents have demonstrated a lack of competence to practice before the Commission.

49. As a result of the conduct described above, CVB willfully violated and Anderson willfully aided and abetted CVB’s violations of Section 10A(a)(1) and (2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice. Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission’s Rules of Practice provide, in pertinent part, that the Commission may censure or deny, temporarily or permanently, the privilege of appearing or practicing before the Commission to any person who is found by the Commission 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.

*CVB Violated and Anderson Aided, Abetted, and Caused CVB’s Violations of Section 10A(a)(1) and (2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X*

50. Under Section 21C of the Exchange Act, the Commission may enter a cease and desist order against any person who commits a violation or is or was a “cause” of another’s primary violation if the person knew or should have known that his act or omission would contribute to the primary violation. Negligence is sufficient to establish “causing” liability under Section 21C of the Exchange Act when a person is alleged to have caused a primary violation that does not require scienter. *See KPMG LLP v. SEC*, 289 F.3d 109, 112 (D.C. Cir. 2002).

51. Sections 10A(a)(1) and (2) of the Exchange Act require that each audit of the financial statements of an issuer by a registered public accounting firm must include, in accordance with generally accepted auditing standards (“GAAS”), procedures designed to detect illegal acts and identify related party transactions that are material to the financial statements. “[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).

52. As a result of the conduct described above, CVB violated Sections 10A(a)(1) and (2) of the Exchange Act by not designing procedures to detect illegal acts and identify related party transactions that were material to the financial statements, and Anderson aided, abetted, and/or caused CVB’s violations of Sections 10A(a)(1) and (2) of the Exchange Act.

53. 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. "Thus, an auditor violates Regulation S-X Rule 2-02(b)(1) if it issues a report stating that it had conducted its audit in accordance with PCAOB Standards when it had not." See *In re Andrew Sims*, CPA, Rel. No.34-59584, AAER No. 2950 (Mar. 17, 2009).

54. As a result of the conduct described above, CVB violated Rule 2-02(b)(1) of Regulation S-X by issuing an audit report stating that it had conducted its audit in accordance with PCAOB Standards when it had not, and Anderson aided, abetted, and/or caused CVB's violation of, Rule 2-02(b)(1) of Regulation S-X.

### III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate against Respondents CVB, Anderson, and Van Wagoner pursuant to Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice;

C. What, if any, remedial action is appropriate against Respondents CVB and Anderson pursuant to Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice;

D. Whether, pursuant to Section 21C of the Exchange Act, Respondents CVB and Anderson should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 10A(a)(1) and (2) of the Exchange Act and Rule 2-02(b)(1) of Regulation S-X.

E. Whether Respondents CVB and Anderson should be ordered to pay disgorgement, plus prejudgment interest, and civil penalties pursuant to Sections 21B and 21C of the Exchange Act.

### IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondents fail to file the directed answer, or fail to appear at a hearing after being duly notified, the Respondents may be deemed in default and the proceedings may be determined against them upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Jill M. Peterson  
Assistant Secretary