

Press Release

SEC Charges New York-Based Audit Firm and Four Accountants for Failures in Audits of China-Based Companies

FOR IMMEDIATE RELEASE

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Washington D.C., Nov. 7, 2013 — The Securities and Exchange Commission today announced sanctions against a New York-based audit firm, its founder, two other partners, and an audit manager for their roles in the failed audits of three China-based companies publicly traded in the U.S.

An SEC investigation found that Sherb & Co. LLP and its auditors falsely represented in audit reports that they had conducted the audits in accordance with U.S. auditing standards when in fact they were riddled with failures and improper professional conduct. One of the companies they audited – China Sky One Medical Inc. – has since been charged by the SEC with financial fraud.

To settle the SEC's charges, the firm and the four auditors agreed to be barred from practicing as accountants on behalf of any publicly traded company or other entity regulated by the SEC. The firm agreed to pay a \$75,000 penalty.

"Auditors are critical gatekeepers in the financial reporting process, but Sherb & Co. and its auditors failed to live up to their professional obligations in multiple audits during a five-year period," said Andrew Ceresney, co-director of the SEC's Division of Enforcement.

According to the SEC's order instituting settled administrative proceedings, the flawed audits involved China Sky One Medical, China Education Alliance Inc., and Wowjoint Holdings Ltd. The individuals responsible for the audits were the firm's founder Steven J. Sherb, fellow partners Christopher A. Valleau and Mark Mycio, and audit manager Steven N. Epstein. They failed to properly plan and execute the audits, and they did not obtain sufficient competent evidential matters concerning sales, revenue, or bank balances. They ignored clear red flags and failed to exercise professional skepticism and due care. They also failed to maintain complete audit work papers.

According to the SEC's order, Sherb engaged in improper professional conduct as the concurring partner for the China Sky audit and as concurring partner and engagement quality review (EQR) partner for the Wowjoint audits. Valleau engaged in improper professional conduct as the engagement partner for the China Sky audit and four of five Wowjoint audits, and as the EQR for the China Education audit. Mycio engaged in improper professional conduct as the engagement partner for the China Education audit and one of the Wowjoint audits. Epstein engaged in improper professional conduct as the senior audit manager on the China Sky audit, China Education audit, and four of five Wowjoint audits.

The SEC order finds that Sherb & Co., Sherb, Valleau, Mycio, and Epstein violated Rule 102(e)(1)(ii) of the SEC's Rules of Practice and Section 4(C) of the Securities Exchange Act of 1934. The SEC's order also finds that Sherb & Co. and Mycio violated Exchange Act Section 10A(b)(1). Sherb & Co. and Mycio are ordered to cease and desist from committing or causing any violations of Section 10A(b)(1) of the Exchange Act. Sherb, Valleau, and Mycio are prohibited from practicing before the SEC as an accountant for at least five years, and Epstein is barred for at least three years.

The SEC's investigation has been conducted by Rhoda Chang, Junling Ma, C. Dabney O'Riordan, Kam Lee, Osman Handoo, Yuri Zelinsky, Neil Welch, and Gregory Faragasso.

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Related Materials

- [SEC order](#)