

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 73862 / December 17, 2014**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3615 / December 17, 2014**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-16324**

**In the Matter of**

**BAKER TILLY HONG  
KONG LIMITED, ANDREW  
DAVID ROSS, CPA, and  
KWOK LAIHA HELENA,  
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,  
MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A  
CEASE-AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against Baker Tilly Hong Kong Limited (“Baker Tilly”), Andrew David Ross (“Ross”), and Kwok Laiha Helena (“Kwok”) (collectively, the “Respondents”), pursuant to Sections 4C<sup>1</sup> and 21C of the Securities

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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.

Exchange Act of 1934 (“Exchange Act”) and Rule 102(e)(1)(ii) of the Commission’s Rules of Practice.<sup>2</sup>

## II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which is admitted, and except as provided herein in Section V, Respondents consent to the entry of this 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, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (the “Order”), as set forth below.

## III.

On the basis of this Order and Respondents’ Offers, the Commission finds<sup>3</sup> that:

### A. SUMMARY

Baker Tilly, a PCAOB-registered audit firm located in Hong Kong, was retained to audit the December 31, 2009, financial statements of China North East Petroleum Holdings Limited (“CNEP”), a Nevada corporation with operations exclusively in the People’s Republic of China (“China”). During that audit, from January 2010 until at least September 2010, Baker Tilly and two of its directors (the equivalent of a partner at a U.S. firm), Ross and Kwok, engaged in improper professional conduct, including violations of PCAOB auditing standards, with regard to material related-party transactions among CNEP, its Chief Executive Officer (“CEO”), Wang Hongjun (“Wang”), the CEO’s mother, Ju Guizhi (“Ju”), and others.<sup>4</sup> Respondents also violated Section 10A(a)(2) of the Exchange Act, dealing with audit procedures to identify related-party transactions.

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<sup>2</sup> Rule 102(e)(1)(ii) provides, in pertinent part, that:

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.

<sup>3</sup> The findings herein are made pursuant to Respondents’ Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

<sup>4</sup> On November 29, 2012, the Commission filed a lawsuit in the U.S. District Court for the Southern District of New York against CNEP, its Chief Executive Officer (Wang Hongjun), the CEO’s mother (Ju Guizhi), and a CNEP vice president (Chao Jiang), alleging fraud and related charges. The complaint also named two relief defendants, Wang’s wife and Chao’s father, to whom large sums had been transferred from company funds. *See SEC v. China North East Petroleum Holdings Limited et al.*, Case No. 12-cv-8696 (S.D.N.Y.).

During the course of the CNEP audit, Respondents were advised that CNEP had engaged in 176 related-party transactions totaling over \$59 million in 2009. Respondents also encountered numerous “red flags” suggesting that these related-party transactions involved a high risk of fraud, e.g., the chairman of CNEP’s Audit Committee resigned due to concerns relating to these transactions, and Baker Tilly itself determined that CNEP’s internal controls relating to such transactions were seriously deficient. Respondents, however, failed to plan and implement an appropriate audit response to these related-party transactions in compliance with PCAOB standards. Further, contrary to generally accepted accounting principles in the United States of America (“U.S. GAAP”), CNEP’s December 31, 2009 financial statements did not disclose the related-party transactions other than as a single entry showing a small, net balance due to the CEO. Nonetheless, Baker Tilly issued an audit report containing an unqualified opinion regarding CNEP’s 2009 financial statements. That report, which Respondents knew would be filed with the company’s 2009 Form 10-K, inaccurately stated that the audit had been conducted in accordance with PCAOB standards and that CNEP’s financial statements fairly presented the company’s position and results in conformity with U.S. GAAP.

## **B. RESPONDENTS**

1. **Baker Tilly Hong Kong Limited** (“Baker Tilly”) is a PCAOB-registered audit firm based in Hong Kong.

2. **Andrew D. Ross** (“Ross”), age 60, is a subject of the United Kingdom and resides in Hong Kong. Ross is a member of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Institute of Chartered Accountants of Scotland. Ross is the managing director of Baker Tilly and is the Chairman of its executive committee. Ross was the lead engagement director on the December 31, 2009 CNEP audit and authorized the issuance of Baker Tilly’s audit report. As lead engagement director with primary responsibility for the audit, Ross was ultimately responsible for being satisfied that: (1) the direction, supervision, performance, and review of the audit engagement was in compliance with professional standards, applicable legal and regulatory requirements, and the firm’s policies and procedures; (2) the auditor’s report was appropriate in the circumstances of the audit engagement; (3) sufficient competent evidential matter had been obtained to support the conclusions reached and the auditor’s report to be issued; and (4) the audit team had engaged in appropriate consultation on significant matters.

3. **Kwok Laiha Helena a/k/a Helena Kwok** (“Kwok”), age 47, is a Hong Kong citizen and resides in Hong Kong. Kwok is a member of the HKICPA and is a fellow member of the Association of Chartered Certified Accountants and an international affiliate of the American Institute of Certified Public Accountants. Kwok was a shareholder and director at Baker Tilly and functioned as the director in charge of the 2009 year-end audit of CNEP. Kwok was responsible for the day-to-day supervision of the 2009 audit, but did not have authority to sign the audit report. In particular, following the merger of CNEP’s prior auditor with Baker Tilly, Kwok became directly responsible for: (1) planning and designing the audit, (2) supervising the Baker Tilly staff in performing the audit steps, (3) reviewing their work and the workpapers and signing off on those

steps, (4) considering the competence and capabilities of individual engagement team members, (5) addressing significant findings or issues arising during the audit engagement and, if necessary, making appropriate modifications to the planned audit approach, and (6) identifying matters for consultation or consideration by qualified engagement team members during the audit engagement. Kwok essentially had delegated responsibility for overall engagement performance.

### **C. OTHER RELEVANT ENTITY**

4. **China North East Petroleum Holdings Limited** (“CNEP”) is a Nevada corporation engaged in oil exploration, production and drilling in the People’s Republic of China (“China”). CNEP became a U.S. issuer in April 2004 through a reverse merger with a British Virgin Islands shell corporation. CNEP’s common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and was listed on the NYSE MKT, LLC (“NYSE”). On July 6, 2012, NYSE filed a Form 25 delisting the common stock effective on July 16, 2012, and deregistering the common stock from Section 12(b) effective on October 4, 2012. Upon deregistration from Section 12(b), the common stock reverted to its previous registration pursuant to Section 12(g) of the Exchange Act. On April 5, 2013, the Commission entered an order pursuant to Section 12(j) of the Exchange Act revoking the registration of each class of CNEP’s securities registered pursuant to Section 12 of the Exchange Act.

### **D. FACTS**

#### CNEP’s December 31, 2009 Financial Statements Filed on Form 10-K Failed To Disclose Material Related-Party Transactions

5. CNEP conducts business through four subsidiaries in China: Song Yuan North East Petroleum Technical Services Co., Ltd.; Song Yuan Yu Qiao Oil & Gas Development Co., Ltd.; Song Yuan Tiancheng Drilling Engineering Co., Ltd.; and Changling Longde Oil and Gas Exploration Co., Ltd.

6. From 2004 through 2008, CNEP’s annual financial statements were not audited by Baker Tilly, but by another firm also located in Hong Kong (the “Former Auditor”). In late 2009, the Former Auditor and Baker Tilly began discussions regarding a potential merger of the Former Auditor’s U.S. audit practice into Baker Tilly. That merger became effective on January 29, 2010, at which time the Former Auditor resigned as CNEP’s auditor and CNEP engaged Baker Tilly as the auditor for its 2009 year-end financial statements. At the time of the merger, a majority of the audit field work had been completed by the staff of the Former Auditor, several of whom joined Baker Tilly following the merger.

7. On April 14, 2010, the chairman of CNEP’s audit committee raised questions concerning a line item in the draft financial statements indicating that \$3.89 million was due to CNEP from a shareholder. The company’s chief financial officer (“CFO”) indicated that this reflected monies due to the company from another CNEP director, Ju, the mother of CNEP’s CEO. Thereafter, the CFO acknowledged to the audit committee that Wang and Ju regularly transferred

cash to and from the company and their personal bank accounts.

8. This information regarding related-party transactions prompted the audit committee to retain a forensic accounting firm to review the \$3.89 million balance and evaluate the company's internal controls over such transactions. After receiving a preliminary report from the forensic accounting firm, the Board of Directors placed CEO Wang on leave and accepted his resignation as Chairman of the Board on May 23, 2010. The same day, the Board also accepted his mother's resignation as a director.

9. On July 10, 2010, the forensic accounting firm submitted its final report, which identified 176 related-party transactions totaling approximately \$59 million during 2009, and found that there were "critical deficiencies in [CNEP's] internal control procedures" (the "July 2010 Forensic Report"). The \$59 million in related-party transactions included approximately \$28 million paid from CNEP to Wang and Ju.<sup>5</sup> It also included approximately \$11 million that Wang and Ju allegedly loaned to CNEP, as well as expenses paid by Wang and Ju on behalf of CNEP. The report also noted that the approximately \$20 million that would have remained due from Wang and Ju at the end of 2009 was reduced to zero through year-end consolidation and post-year-end closing adjustments that lacked supporting documentation or were otherwise questionable.

10. The forensic accounting firm stated in its report that "[o]ur review has found no evidence to suggest that funds transferred to either Ms. Ju or Mr. Wang were withdrawn for her/his personal use, but has identified that funds transferred to the personal accounts of Ms. Ju and Mr. Wang have been recorded . . . and applied to make payments related to the operations of" CNEP. The forensic accounting firm also stated in its report that "[w]hilst our review has involved an analysis of financial information and accounting records, it does not constitute an audit or an assurance assignment in accordance with Hong Kong or International Standards on Auditing, on Review Engagements or on Assurance Engagements and accordingly, no such assurance is provided in this report." Moreover, notwithstanding what the forensic accounting firm wrote in its report, there is substantial evidence that company funds were transferred to company insiders and their family members for personal use.

11. The July 2010 Forensic Report identified numerous additional red flags and internal control deficiencies and failures, including:

- The ability of management to override internal controls and access CNEP's bank accounts.
- Unauthorized related-party transactions, including cash withdrawals, payments to vendors, and investments made by insiders on behalf of CNEP without authorization were possible, in part, because of insufficient verification of payments.

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<sup>5</sup> The approximately \$28 million that went from CNEP to Wang and Ju was approximately 41% of CNEP's 2009 reported annual revenues of approximately \$68 million.

- Inadequate segregation of duties among employees in accounts payable and cash management areas that could result in the misappropriation of company funds.
- Failure to implement and comply with Chinese Interim Cash Control Regulations and Internal Policy concerning cash disbursements, including the lack of a policy related to amounts that could be advanced to company personnel to make purchases on behalf of the company.
- Incomplete audit trail for the related-party transactions.
- Convoluted and inappropriate account offsets of amounts owed to CNEP by insiders, including Wang and Ju, based on agreements that were largely unsigned and contained contradictory statements or amounts.
- Insufficient internal controls to require written approval for the period-end adjustments could result in intentional or unintentional errors in financial statements.
- Varied explanations and numerous other anomalies were noted in documentation of the transactions related to fixed assets prepayments to suppliers purportedly paid through the Ju's personal account.

12. The July 2010 Forensic Report stated that it was not an audit of the related-party transactions or any other part of the CNEP financial statements. Nevertheless, after receiving the July 2010 Forensic Report on or about July 12, 2010, Ross, Kwok and the engagement team failed to (i) adequately review the report, (ii) adequately revise the firm's audit planning regarding fraud risks, or (iii) audit the material related-party transactions in accordance with PCAOB standards.

13. On May 27, 2010, CNEP announced that its CFO had resigned. The new (acting) CFO was unwilling to sign the management representation letter because he was unfamiliar with CNEP's historical financial information. Ross, Kwok, and the engagement team ultimately accepted a management representation letter signed only by the acting CEO, who had only three weeks earlier been assigned principal financial officer responsibilities. On August 8, 2010, the chairman of CNEP's audit committee resigned, indicating that he believed the company had not adequately addressed the findings of the July 2010 Forensic Report.

14. On September 3, 2010, CNEP's financial statements were filed with the Commission as part of CNEP's 2009 Form 10-K. The material related-party transactions were not disclosed in detail in the notes to the financial statements. CNEP disclosed only that as of December 31, 2009, the company owed a stockholder \$89,269. CNEP did not disclose that the stockholder was CEO Wang or that the \$89,269 was the net result of 176 separate transactions between the company and Wang or his mother or that they totaled approximately \$59 million. Thus, the financial statements and notes thereto provided no information regarding the description of the transactions, the nature of the relationships involved, the amounts involved, the terms and manner of settlement of the transactions, and such other information as may be deemed necessary

to understand the effects of the significant and unusual transactions on the financial statements as required by U.S. GAAP. Nor did the financial statements indicate that many of the transactions involved the CEO's family members.

15. Nonetheless, Baker Tilly issued an audit report containing an unqualified opinion that was filed with CNEP's financial statements in the Form 10-K. In that report, Baker Tilly inaccurately stated that the audit had been conducted in accordance with PCAOB standards and that CNEP's financial statements fairly presented the company's position and results in conformity with U.S. GAAP.

Baker Tilly, Ross, and Kwok Failed to Conduct  
the CNEP Audit in Accordance with PCAOB Standards

*Failed to exercise due professional care and lacked professional skepticism  
(AU §§ 230 and 334)*

16. PCAOB standards require auditors to exercise due professional care in the planning and performance of the audit and the preparation of the report. (AU § 230.01) Auditors should be assigned and supervised commensurate with their level of knowledge, skill, and ability, so that they can evaluate the audit evidence they are examining. The auditor with final responsibility for the engagement should know, at a minimum, the relevant accounting and auditing standards and should be knowledgeable about the client. (AU § 230.06) Auditors must maintain an attitude of professional skepticism, which includes "a questioning mind and a critical assessment of audit evidence." (AU § 230.07) In addition, the auditor should "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." (AU § 230.08) Additionally, PCAOB standards dealing directly with related-party transactions require that "an auditor should view related-party transactions within the framework of existing [accounting] pronouncements, placing primary emphasis on the adequacy of disclosure." (AU § 334.02)

17. Ross, Kwok, and other Baker Tilly personnel exhibited a lack of understanding of applicable U.S. professional accounting and auditing standards regarding: (i) disclosure of related-party transactions and (ii) audit procedures and documentation. Generally, Ross, Kwok, and the Baker Tilly staff involved in this audit lacked adequate professional training in U.S. GAAP. Ross and Kwok indicated that they received approximately two days of training in U.S. GAAP each year. Kwok had never previously been involved in the audit of a U.S. issuer.

18. Respondents failed to exercise the requisite level of care or perform a critical assessment of the audit evidence. Well before the audit report was issued, they were aware that CNEP was engaged in material related-party transactions, including loans to and from insiders, convoluted offsetting agreements, payments to vendors on behalf of CNEP, investments by insiders on behalf of CNEP, and reimbursements to insiders. Nevertheless, Baker Tilly issued an audit report containing an unqualified opinion even though CNEP failed to properly disclose the

material related-party transactions in its financial statements as required by U.S. GAAP.<sup>6</sup>

19. Respondents also failed to exercise an appropriate level of skepticism about the significant and unusual related-party transactions and the explanations and documentation provided by CNEP. They failed to: (i) obtain an adequate understanding of their nature, purpose and extent; (ii) determine whether such transactions were approved at appropriate levels within the organization; (iii) adequately consider the implications of significant deficiencies in the system of internal controls surrounding related-party transactions; (iv) address the risks associated with routine transfers of significant CNEP funds into the personal bank accounts of insiders; (v) obtain sufficient evidence to substantiate the related-party transactions, including significant post-year-end adjustments; and (vi) resolve inconsistencies in the evidence presented and explanations obtained. There is insufficient evidence in Respondents' workpapers that they questioned these transactions or instructed the audit team that specific testing must be designed to address the risks associated with these unusual transactions.

*Failed to adequately plan the audit (AU §§ 311 and 316)*

20. Ross, Kwok, and the Baker Tilly engagement team failed to adhere to the PCAOB standards relating to audit planning because they did not obtain adequate knowledge of CNEP's business or properly consider the risks of material misstatement due to fraud at CNEP.

21. An auditor must adequately plan the audit and properly supervise assistants. (AU § 311.01) In planning the audit, the auditor should obtain a level of knowledge of the entity's business that will enable him to plan and perform his audit in accordance with PCAOB Standards. As the audit progresses, changed conditions may make it necessary to modify planned audit procedures. (AU § 311.05.) The auditor should obtain an understanding the events, transactions, and practices that, in his judgment, may have a significant effect on the financial statements. Knowledge of the entity's business helps the auditor to, among other things, identify areas that may need special consideration, assess conditions under which accounting data are produced, processed, reviewed and accumulated within the organization, and evaluate the reasonableness of management representations. (AU § 311.06.) In planning the audit, the auditor should also consider, among other matters, the entity's accounting policies and procedures, and planned assessed level of control risk. (AU § 311.03.)

22. The auditor must plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. (AU § 316.01) The audit engagement team, including the auditor with final responsibility

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<sup>6</sup> In particular, Financial Accounting Standards Board Accounting Standards Codification Topic 850 ("ASC 850"), formerly known as Statement of Financial Accounting Standards No. 57, provides that financial statements shall include disclosures of material related-party transactions, including a description of the transactions, the nature of the relationships involved, the dollar amount of the transactions, the terms and manner of settlement of amounts due from or to related parties (if not otherwise apparent), and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements.

for the audit, is required to discuss the risk of material misstatement due to fraud and obtain information needed to identify such risk. This includes the obligation to make inquiries of management, those charged with governance, and others within the company regarding such risk. (AU § 316, at .14-.27.)

23. Respondents failed to obtain an adequate understanding of CNEP's business and business environment, including its accounting policies and procedures, internal controls, and the risk of material error or fraud from related-party transactions. Kwok did not meet any CNEP personnel in person until 2011. Ross never visited CNEP's offices or any of its field operations, and never spoke to Baker Tilly's main contact, the CFO, prior to finalizing the 2009 audit opinion and therefore was not knowledgeable about the client or its business.

24. Respondents failed to adequately plan the audit. There is no indication in the workpapers that Ross reviewed the audit planning documents. As the audit progressed, new information and changed conditions should have caused Respondents to re-evaluate and modify the procedures in accordance with AU 311.05. However, the audit plan was not revised after the Respondents received the July 2010 Forensic Report, which noted that the 176 related-party transactions occurred during 2009.

25. Ross and Kwok failed to consider numerous indications of possible fraud risk in the overall risk analysis and audit planning. Correspondingly, Respondents failed to develop audit procedures tailored to the true risks presented by the related-party transactions. In particular, related-party transactions were not identified as a risk area.

*Failed to design procedures tailored to the risk of misstatement and failed to properly document audit risk (AU §§ 311 and 312)*

26. The auditor is required to perform risk assessment procedures when planning and performing an audit of financial statements in accordance with PCAOB Standards. (AU § 312.01) Ordinarily, higher risk requires more experienced personnel or more extensive supervision, during both the planning and the conduct of the engagement. Additionally, higher risk may cause the auditor to expand the procedures applied or modify the procedures to obtain more persuasive evidence. (AU § 312.17)

27. Further, the auditor should consider conditions that may require extension or modification of audit tests, such as the existence of related-party transactions. (AU § 311.03g) An audit of financial statements is a cumulative process and the audit evidence obtained may cause the auditor to modify the planned procedures. (AU § 312.33)

28. In view of the information in the July 2010 Forensic Report, including the significant deficiencies in internal controls surrounding the related-party transactions and the ability of management to override internal controls to access CNEP's bank accounts, Respondents should have considered identifying additional risk areas and requiring corresponding additional testing.

*Failed to obtain sufficient competent evidential matter and properly audit related-party transactions (AU §§ 326, 330, and 334)*

29. An auditor must obtain sufficient competent evidential matter to provide a reasonable basis for an audit opinion. (AU § 326.01) In selecting particular substantive tests to achieve the audit objectives, an auditor considers, among other things, the risk of material misstatements. (AU § 326.11) Evidential matter from independent sources outside the issuer provides greater assurance of reliability than information obtained solely from within the entity. (AU § 326.21) With respect to related-party transactions, after an auditor identifies related-party transactions, he or she should apply the procedures considered necessary to obtain satisfaction concerning the purpose, nature, and extent of those transactions and their effect on the financial statements. This may include taking the steps necessary to obtain “an understanding of the business purpose of the transaction” and examining supporting documentation, such as invoices and copies of contracts. (AU § 334.09) Where disclosure of a transaction is required, the auditor must satisfy himself that the transaction is adequately disclosed in the financial statements. (AU § 334.11) The higher the auditor’s assessment of risk regarding related-party transactions, the more extensive or effective the audit tests should be. (AU § 9334.19)

30. If an entity has entered into an unusual or complex transaction and the combined assessed level of inherent and control risk is high, the auditor should consider confirming the terms of the transaction with the other parties. (AU § 330.08) The auditor should assess whether the evidence provided by confirmations reduces audit risk for the related assertions to an acceptably low level. In making that assessment, the auditor should consider the materiality of the account balance and the control risk assessment. If the evidence provided by confirmations is not sufficient, additional procedures should be performed. (AU § 330.09)

31. Respondents failed to obtain sufficient evidence regarding CNEP’s related-party transactions to support an unqualified audit opinion. Respondents failed to identify related parties, failed to identify all related-party transactions, and failed to perform adequate procedures to gain an understanding of the business purposes, nature and impact of the material related-party transactions that were identified. Respondents also failed to obtain audit evidence that would justify CNEP’s failure to adequately disclose the material related-party transactions.

32. CNEP engaged in approximately \$59 million in related-party transactions in 2009. However, the scope of the Hong Kong accounting firm’s engagement and its July 2010 Forensic Report focused on the \$3.89 million balance identified by the audit committee chairman. Baker Tilly’s workpapers do not reflect that Ross Kwok, or anyone on the engagement team made meaningful inquiry as to the nature or business purpose of the other material related-party transactions, or that they performed sufficient substantive procedures to verify those transactions.

33. Post year-end closing adjustments significantly reduced the amounts that Wang and Ju owed CNEP; however, Respondent’s testing in this area was limited. According to the July 2010 Forensic Report, the post year-end adjustments included transactions to record \$5.0 million in “balance transfers” due from CNEP to Wang and Ju and \$6.7 million related to the “amount paid

by Ms. Ju for acquiring Tian Cheng.” Nothing in Respondents’ workpapers indicates that they applied sufficient procedures to substantiate these post year-end adjustments.

34. Another of the 176 related-party transaction involved Wang’s purported capital infusion of \$4.6 million into CNEP’s subsidiary Song Yuan Technical on September 23, 2009. However, according to the bank statement for the account in which CNEP’s 2009 offering proceeds were deposited, the \$4.6 million was transferred from CNEP, not Wang. Baker Tilly’s workpapers contain conflicting accounts of the source of the \$4.6 million. Respondents failed to determine and document the true source of the \$4.6 million before issuing the audit report containing an unqualified opinion.

35. To test whether Wang was owed substantial sums by CNEP, Respondents sent the confirmation papers to Wang himself. Wang was not a third-party and, given the risk, this “confirmation process” was not sufficient to determine the completeness, existence or accuracy of the purported debt to Wang. As such, additional evidence should have been obtained but was not.

*Failed to prepare and retain adequate audit documentation (AS 3)*

36. PCAOB Auditing Standard (“AS”) No. 3 requires that audit documentation contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand: the procedures performed; the results and evidence obtained; the conclusions reached; who performed and reviewed the work; and the dates such work was completed and reviewed. (AS 3.06) Respondents failed to comply with these requirements.

37. The audit documentation maintained by Ross, Kwok, and the Baker Tilly engagement team is not sufficient to enable an experienced auditor to understand the “nature, timing, extent and results of audit procedures performed” in a variety of areas. The work papers frequently do not reflect the name of the preparer, the date the work was done, the date the papers were prepared, or the date the papers were reviewed.

38. The audit documentation does not adequately reflect Respondents’ findings and conclusions regarding the related-party transactions, including post year-end adjustments. Nor do the workpapers address the fundamental questions of whether CNEP was required by U.S. GAAP to disclose the material related-party transactions in its financial statements.

39. Respondents’ workpapers do not contain sufficient evidence with respect to the accounts payable and related payments by Ju purportedly paid to reduce amounts she owed to CNEP. The main focus of the July 2010 Forensic Report was the \$3.89 million of vendor payments purportedly made by Ju to eight suppliers on behalf of the company.

## E. VIOLATIONS

### Rule 102(e) and Section 4C of the Exchange Act

40. As a result of the conduct described above, Respondents engaged in improper professional conduct within the meaning of Section 4C of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice. These provisions 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.

41. Section 4C(b) and Rule 102(e)(1)(iv) define improper professional conduct with respect to persons licensed to practice as accountants. Pursuant to these provisions, "improper professional conduct" includes two types of negligent conduct: (1) a single instance of highly unreasonable conduct that results in a violation of professional standards in circumstances in which heightened scrutiny is warranted; or (2) repeated instances of unreasonable conduct, each resulting in violations of professional standards, that indicate a lack of competence.

42. Ross's and Kwok's failures to abide by PCAOB standards in the audit of CNEP's year-end financial statements for 2009 constitute repeated instances of unreasonable conduct, and also satisfy the highly unreasonable conduct standard.

43. Baker Tilly's failures to abide by PCAOB standards in the audit of CNEP's year-end financial statements for 2009 satisfy the one instance of highly unreasonable conduct standard.

### Respondents Violated Section 10A(a)(2) of the Exchange Act

44. Section 10A(a)(2) of the Exchange Act requires each audit conducted of an issuer by a registered public accounting firm to include "procedures designed to identify related-party transactions that are material to the financial statements or otherwise require disclosure therein." No showing of scienter is necessary to establish a violation of Section 10A. *See SEC v. Solucorp Indus., Ltd.*, 197 F. Supp. 2d. 4, 10-11 (S.D.N.Y. 2002).

45. In connection with the 2009 CNEP audit, Respondents violated Section 10A(a)(2) of the Exchange Act by failing to plan, design, and carry out audit procedures to identify CNEP's material related-party transactions that required disclosure in the financial statements.

**F. FINDINGS**

46. Based on the forgoing, the Commission finds that Baker Tilly, Ross, and Kwok engaged in improper professional conduct pursuant to Rule 102(e)(1)(ii) of the Commission's Rules of Practice and Section 4C of the Exchange Act.

47. Additionally, the Commission finds that Baker Tilly, Ross, and Kwok violated Section 10A(a)(2) of the Exchange Act.

**G. UNDERTAKINGS**

**Baker Tilly Shall Retain an Independent Consultant**

47. Baker Tilly has undertaken to retain, within thirty days after the entry of this Order, an independent consultant ("Independent Consultant"), not unacceptable to the Commission staff. The Independent Consultant will review and evaluate the audit and interim review policies and procedures of Baker Tilly regarding: (i) identifying and disclosing related-party transactions; (ii) training in client fraud detection; (iii) exercising due professional care and professional skepticism; (iv) audit planning; (v) performing proper risk assessment; (vi) designing procedures tailored to the risk of misstatement; (vii) obtaining sufficient appropriate audit evidence; (viii) document retention; (ix) third-party confirmations; (x) work paper sign-off and dating; and (xi) adequate audit documentation. The Independent Consultant's review and evaluation will assess the forgoing areas to determine whether Baker Tilly's policies and procedures are adequate and sufficient to ensure compliance with Commission regulations and with PCAOB standards and rules. Baker Tilly will cooperate fully with the Independent Consultant and will provide reasonable access to firm personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's reviews and evaluations. Baker Tilly will provide to the Commission staff a copy of the engagement letter detailing the scope of the Independent Consultant's responsibilities.

48. Within sixty days of being retained, the Independent Consultant will issue a written report ("Report") to Baker Tilly: (a) summarizing the Independent Consultant's review and evaluation; and (b) making recommendations, where appropriate, reasonably designed to ensure that audits conducted by Baker Tilly comply with Commission regulations and with PCAOB standards and rules. The Independent Consultant will provide a copy of the Report to the Commission staff and the PCAOB staff when the Report is issued.

49. Baker Tilly will adopt, as soon as practicable, all recommendations of the Independent Consultant in the Report. Provided, however, that within thirty days of issuance of the Report, Baker Tilly may advise the Independent Consultant in writing of any recommendation that it considers to be unnecessary, unduly burdensome, or impractical. Baker Tilly need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the Commission Staff an alternative policy or procedure designed to achieve the same objective or purpose. Baker Tilly and the Independent Consultant will engage in good-faith negotiations in an effort to reach agreement on any recommendations objected to by Baker Tilly.

50. In the event that the Independent Consultant and Baker Tilly are unable to agree on an alternative proposal within thirty days, Baker Tilly will abide by the determinations of the Independent Consultant.

51. Within sixty days of issuance of the Report, but not sooner than thirty days after a copy of the Report is provided to the Commission staff, Baker Tilly will certify to the Staff in writing that it has adopted and has implemented or will implement all recommendations of the Independent Consultant (“Certification of Compliance”). Baker Tilly will provide a copy of the Certification of Compliance to the PCAOB staff.

52. Baker Tilly will require the Independent Consultant to enter into an agreement that provides that, for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Baker Tilly, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Division of Enforcement, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Baker Tilly, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

53. Baker Tilly shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Baker Tilly agrees to provide such evidence. The certification and supporting material shall be submitted to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., N.E., Washington, D.C. 20549-5720B SP2, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

Baker Tilly Shall Not Accept New Audit Clients

54. Baker Tilly will not accept any new U.S. issuer audit clients between the date of this Order and the issuance of the Certification of Compliance by the Independent Consultant.

Baker Tilly Shall Provide Notice to its Current Audit Clients

55. Within 15 days of the entry of this order, Baker Tilly will provide notice of this settlement to its current U.S. audit clients.

Respondents Shall Cooperate with the  
Commission’s Investigation and Related Litigation

56. Baker Tilly, Ross, and Kwok hereby undertake that they shall cooperate fully with the Commission in any and all investigations, litigations, administrative or other proceedings

commenced by the Commission or to which the Commission is a party relating to or arising from the matters described in this Order. In connection with such investigations, litigation, administrative or other proceedings, the Respondents agree to the following: (i) to produce, without service of a notice or subpoena, any and all documents and other materials and information as requested by the Commission; (ii) to appear and testify without service of a notice or subpoena in such investigations, interviews, depositions, hearings and trials, at such times and places as reasonably requested by the Commission; and (iii) to respond promptly to all inquiries from the Commission. In determining whether to accept the Offers, the Commission has considered these undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED, effective immediately, that:

A. Baker Tilly, Ross, and Kwok shall cease and desist from committing or causing any violations and any future violations of Section 10A(a)(2) of the Exchange Act.

B. Baker Tilly is censured.

C. Ross and Kwok are denied the privilege of appearing or practicing before the Commission as accountants.

D. After three years from the date of this order, Ross and/or Kwok may request that the Commission consider their reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that their work in their practice before the Commission will be reviewed either by the independent audit committee of the public company for which they work or in some other acceptable manner, as long as they practice before the Commission in this capacity; and/or
2. an independent accountant. Such an application must satisfy the Commission that:
  - (a) Ross or Kwok, or the public accounting firm with which he or she is associated, is registered with the Public Company Accounting Oversight Board ("PCAOB") in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

- (b) Ross or Kwok, or the registered public accounting firm with which he or she is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in the quality control system relating to the work of Ross or Kwok that would indicate that Ross or Kwok will not receive appropriate supervision;
- (c) Ross and/or Kwok have resolved all disciplinary issues with the PCAOB, and has complied with all terms and conditions of any sanctions imposed by the PCAOB (other than reinstatement by the Commission); and
- (d) Ross and/or Kwok acknowledges his or her responsibility, as long as they appear or practice before the Commission as an independent accountant, to comply with all requirements of the Commission and the PCAOB, including, but not limited to, all requirements relating to registration, inspections, engagement quality reviews, and quality control standards.

E. The Commission will consider an application by Ross and/or Kwok to resume appearing or practicing before the Commission provided that his or her CPA license is current and he or she has resolved all other disciplinary issues with the applicable boards of accountancy. However, if CPA licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Ross's or Kwok's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

F. Baker Tilly shall, within 30 days of the entry of this Order, pay disgorgement of \$75,000, which represents profits gained as a result of the conduct described herein, and prejudgment interest of \$9,101 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

G. Ross and Kwok shall, within 30 days of the entry of this Order, pay civil money penalties in the amounts of \$20,000 and \$10,000, respectively, to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717.

H. Payments ordered in paragraphs F and G above must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Baker Tilly, Ross, or Kwok as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Antonia Chion, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

**V.**

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are admitted by Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields  
Secretary