



Texas State Board of Public Accountancy

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William Treacy, Executive Director

July 7, 2011

Chairman Mary L. Schapiro
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Schapiro:

This letter is intended to update you on recent enforcement actions by the Texas State Board of Public Accountancy. As detailed in this agency's December 2010 letter to the SEC, this agency conducted an investigation into the issue of non-U.S. accountancy firms working in Texas in violation of the Texas Public Accountancy Act. To date, we have identified as many as 19 unlicensed foreign firms illegally providing attest services in Texas by signing Reports of Independent Registered Public Accounting Firms for Texas-based companies' SEC 10-K filings.

The list below details which foreign firms this agency has contacted regarding their provision of attest services to companies that have their principal offices in Texas. This list includes the foreign firm name (in bold); the location of its office providing attest services; and the companies to which those services were provided. Firms marked with an asterisk (*) have signed an agreed cease and desist order agreeing to comply with Texas law, or will have a cease and desist order entered against them by this agency.

- 1. Audit Firm Femida-Audit LLC*/Moscow, Russia/Premier Energy Corporation**
- 2. Albert Wong & Co.* /Hong Kong, China/China Media Group**
- 3. BDO Dunwoody LLP*/Vancouver, Canada/Pantera Petroleum Inc./ESP Resources, Inc.**
- 4. BDO Kazakhstanaudit*/Almaty, Kazakhstan/Caspian International Oil Corp.**
- 5. BDO Patel & Al Saleh*/Dubai, United Arab Emirates/Sky Petroleum Inc.**
- 6. Dale Matheson Carr Hilton Labonte*/Vancouver, Canada/Strategic American Oil Corporation/Holloman Energy/Altus Explorations Inc./Petrogen Corp./Southern Star Energy Inc./Lusora Healthcare Systems Inc./Mainland Resources, Inc./Netfone, Inc.**
- 7. Esther Yap & Co.* /Kuala Lumpur, Malaysia/Index Oil & Gas Co.**
- 8. KPMG LLP*/Calgary, Canada/Niska Gas Storage/TC Pipelines LP**

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9. **Mackay LLP*/Vancouver, Canada/Quest Oil Corporation/S2C Global Systems, Inc.**
10. **Manning Elliot LLP*/Vancouver, Canada/Chancery Resources**
11. **Morgan & Company*/Vancouver, Canada/Manchester, Inc./Gulf United Energy/Golden Star Resource Company**
12. **PKF Hong Kong*/Hong Kong, China/Nevstar**
13. **Somekh Chaikin Certified Public Accountants*/Tel Aviv, Israel/Zion Oil & Gas**
14. **Zhong Yi CPA Co. Ltd.*/Hong Kong, China/New Paradigm Productions Inc.**
15. **Ernst & Young of Canada/Vancouver, Canada/Uranium Energy Corporation**
16. **Chang Lee, Chartered Accountants/Vancouver, Canada/Golden Star Resource Corp.**
17. **Meyers Norris Penny/Toronto, Canada/Zunicom**
18. **Meyers Norris Penny/Calgary, Canada/Holloman Energy**
19. **K.R. Margetson Ltd./Sechelt, Canada/Craft College**
20. **ZhongLei Certified Public Accountants Ltd./Beijing, China/BTHC XV, Inc.**
21. **Ernst & Young of Canada/Toronto, Canada/Blacksands Petroleum Inc.**

Therefore, as detailed in the list above, 14 foreign accountancy firms have entered into cease and desist orders with the Board or will have cease and desist orders issued against them in the near future, and these firms have completed attest services in the past five years for at least 25 publicly traded U.S. companies headquartered in Texas. Regarding the remaining six firm offices listed above:

- ZhongLei Certified Public Accountants Ltd. and Chang Lee Chartered Accountants: ZhongLei Certified Public Accountants Ltd. and Chang Lee, Chartered Accountants signed letters acknowledging that they did not provide attest services in Texas. These orders were necessary because based on the evidence, this agency was unable to determine whether the two firms audits of reverse merger companies violated Texas law.
- K.R. Margetson Ltd.: This firm's managing partner has responded to this agency's correspondence by claiming that because he has a CPA license from Illinois, he was permitted to perform attest services in Texas. This is incorrect. If this firm does not sign an agreed cease and desist order, this agency will issue

an order, assuming K.R. Margetson does not contest the issue in the state office of administrative hearings.

- Ernst & Young (Vancouver office) and Meyers Norris Penny (Toronto office): Ernst & Young's Vancouver, Canada office, and Meyers Norris Penny's Toronto, Canada office have disputed this agency's contention that they have provided attest services for a company with its principal office in Texas. In both instances, the firms claim that despite numerous statements to the contrary in the SEC 10-K filings and on the websites of the companies they provided attest services for, these companies' principal offices are *de facto* in Canada. This agency is still in the process of discussing these firms' circumstances with the firms' attorneys; if necessary, this agency will refer these companies' reporting discrepancies to your agency.
- Meyers Norris Penny (Calgary office) and Ernst & Young (Toronto office): these firm offices have not yet had cease and desist orders entered against them. This agency recently completed its investigation of these firms and is in the process of acting regarding their potential violations of Texas law.

Lastly, this agency brings to your attention several additional facts about the above-listed firms. Esther Yap's firm is no longer registered with the PCAOB; its cease and desist order was signed by the firm's director, Esther Yap, who is now employed by Mazars' Kuala Lumpur Office. Mazars' Kuala Lumpur Office is registered with the PCAOB.

Two other above-listed firms, Albert Wong & Co. and PKF Hong Kong, are under investigation by the PCAOB regarding their connection to Chinese reverse mergers. The unusual business arrangement by Meyers Norris Penny's Toronto office client, Zunicom, and its wholly-owned private subsidiary, Alphanet Hospitality Systems Inc., also appears to be a reverse merger. Several other companies audited by the above-listed firms have the hallmarks of being reverse merger public companies.

Lastly, some of the above-listed audited companies are also potentially "pump and dump" schemes. A number of the firms on this list (e.g. Manning Elliot LLP, Dale Matheson Carr Hilton Labonte, Morgan & Company, PKF Hong Kong) have been alleged by various sources to be involved in numerous U.S.-based "pump and dump" schemes. Dale Matheson Carr Hilton Labonte has also been cited by the PCAOB as a firm that failed to address quality control criticisms satisfactorily.

Given the widespread and serious nature of the violations that this agency has uncovered, we would like to know what the SEC's response is to foreign accountancy firms violating U.S. jurisdictions' laws with their signing of audit reports for SEC filings.

Specifically:

- SEC regulations limit the provision of attest services to publicly traded companies to "certified public accountants" [SEC Regulation S-X, Rule 2-01(a)]. Why is the

SEC accepting filings containing reports of independent audit firms which are staffed entirely by non-US accountants?

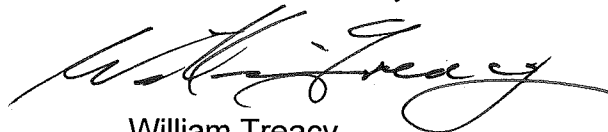
- SEC regulations permit the SEC to recognize as certified public accountants only those persons who are in good standing with their home jurisdictions [SEC Regulation S-X, Rule 2-01(a)]. Why is the SEC permitting filings that contain the reports of audit firms violating the laws and rules of their home jurisdictions by engaging in illegal activities in Texas?

We look forward to receiving your replies to these questions. In the meantime, we will inform you of the eventual outcomes of this agency's remaining investigations, and of any other investigations that we undertake in this matter.

If you have any questions regarding this matter, please feel free to contact this agency's General Counsel, J. Randel (Jerry) Hill at the address above, by e-mail at gencounsel@tsbpa.state.tx.us, or by phone at 512-305-7842.

Yours very truly,

Texas State Board of
Public Accountancy

A handwritten signature in black ink, appearing to read "William Treacy", written in a cursive style.

William Treacy
Executive Director

Cc: David Costello – NASBA