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ORDER INSTITUTING DISCIPLINARY PROCEEDINGS, MAKING FINDINGS, AND IMPOSING SANCTIONS *In the Matter of Lake & Associates, CPA's LLC, and Jay Charles Lake, CPA,* Respondents.	PCAOB Release No. 105-2013-006 August 13, 2013

By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is censuring Lake & Associates, CPA's LLC (the "Firm"), and Jay Charles Lake, CPA ("Lake"), revoking the registration of the Firm,[1/] and barring Lake from being an associated person of a registered public accounting firm.[2/] The Board is imposing these sanctions on the Firm and Lake (collectively, "Respondents") on the basis of its findings that Respondents violated PCAOB rules and auditing standards in auditing the 2009 financial statements of four issuer clients, that the Firm violated PCAOB quality control standards, and that Lake directly and substantially contributed to the Firm's violation of PCAOB quality control standards.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended ("Act"), and PCAOB Rule 5200(a)(1) against the Firm and Lake.

1/ The Firm may reapply for registration after three (3) years from the date of this Order.

2/ Lake may file a petition for Board consent to associate with a registered public accounting firm after three (3) years from the date of this Order.

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II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement (collectively, "Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.[3/]

III.

On the basis of Respondents' Offers, the Board finds[4/] that:

A. <u>Respondents</u>

1. Lake & Associates, CPA's LLC, is a professional limited liability company organized under the laws of the State of Florida and headquartered in Schaumburg, Illinois. The Firm is licensed by the State of Florida (license no. AD62907) and the State of Illinois (license no. 066-004126). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB Rules. At all relevant times, the Firm was the independent auditor for each of the issuers identified below. As of the time the Firm filed its 2012 annual report on Form 2 with the Board, it had two partners and four other professional staff members.

2. Jay Charles Lake, CPA, 50, of Boca Raton, Florida, is a certified public accountant licensed by the State of Florida (license no. AC0034533) and by the State of Illinois (license no. 065-022654). He is the managing member of the Firm, was the

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[3/] The findings herein are made pursuant to the Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

[4/] The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that Respondents' conduct described in this Order meets the condition set out in Section 105(c)(5), which provides that such sanctions may be imposed in the event of: (A) intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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auditor with final responsibility for the Firm's audits of the financial statements of all four of the issuers discussed below, and authorized the issuance of the Firm's audit reports on those financial statements. Lake is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

B. Summary

3. This matter concerns Respondents' numerous and repeated violations of PCAOB rules and auditing standards in connection with the issuance of audit reports on the 2009 financial statements of four issuers (collectively, the "Audits").[5/] Specifically, Respondents failed to, among other things: (a) plan the Audits adequately; (b) perform sufficient audit procedures on material accounts, including revenue, accounts receivable, and inventory; and (c) prepare and maintain sufficient audit documentation.

4. Furthermore, as detailed below, the Firm failed to establish and implement quality control policies and procedures sufficient to provide it with reasonable assurance that the work performed by engagement personnel met all applicable professional standards. At all relevant times, Lake was responsible for the development, implementation and monitoring of the Firm's quality control policies and procedures. Despite those responsibilities, during the Audits, Lake took or omitted to take action knowing, or recklessly not knowing, that his acts and/or omissions would directly and substantially contribute to the Firm's violation of PCAOB quality control standards, in contravention of PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.[6/]

C. Respondents Violated PCAOB Rules and Auditing Standards In Connection with the Audits

5. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards.[7/] An auditor may express an unqualified opinion

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[5/] Specifically, the Audits consist of the Firm's audits of the 2009 financial statements of: (a) MediaNet Group Technologies, Incorporated; (b) Hutech21 Company, Limited, f/k/a China Logistics Incorporated; (c) China Education Technology, Incorporated; and (d) China Fruits Corporation.

[6/] All references to PCAOB auditing and quality control standards in this Order are to the versions of those standards in effect for the Audits.

[7/] See PCAOB Rules 3100, 3200T.

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on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.[8/] Among other things, those standards require that an auditor exercise due professional care, exercise professional skepticism, and obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.[9/]

6. PCAOB standards also require that audit work be adequately planned[10/] and require auditors to perform procedures to identify, assess, and respond to risks of material misstatement due to fraud.[11/] Among other procedures, audit team members should conduct a discussion concerning the risks of material misstatement due to fraud and must perform analytical procedures to identify "unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have financial statement and audit planning implications."[12/] Further, PCAOB standards identify certain procedures, such as those relating to confirming accounts receivable and observing inventories, as "generally accepted auditing procedure[s]."[13/]

7. Additionally, PCAOB audit documentation standards require an auditor to prepare an engagement completion document that identifies all "significant findings or issues," such as significant unusual transactions, matters that could result in a modification of the audit report, and audit adjustments.[14/]

8. As detailed below, Respondents failed to comply with the aforementioned rules and standards, among others, in connection with the Audits.

8/ See AU § 508.07, *Reports on Audited Financial Statements.*

9/ See AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; AU § 326, *Evidential Matter*.

10/ See AU § 150.02; AU § 311, *Planning and Supervision*.

11/ AU § 316, *Consideration of Fraud in a Financial Statement Audit*.

12/ AU § 316.14-18, .20-27, 28.

13/ AU § 330.34, *The Confirmation Process*; AU § 331.01, *Inventories*.

14/ Auditing Standard No. 3 ("AS 3") ¶¶ 12, 13, *Audit Documentation*. PCAOB standards define "significant findings or issues" as "substantive matters that are important to the procedures performed, evidence obtained, or conclusions reached." Id. ¶ 12.

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The Audit of MediaNet's 2009 Financial Statements

9. MediaNet Group Technologies, Inc. ("MediaNet"), was, at all relevant times, a Nevada corporation with its principal executive office in Florida. MediaNet's public filings disclose that it was a global network marketing firm that was engaged in selling merchandise, predominantly consumer electronics, jewelry, and electronic gift cards, to consumers through Internet-based auctions conducted under the trade name "DubLi.com." Its common stock was registered under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act"), and its stock is currently quoted on the Pink Sheets. At all relevant times, MediaNet was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

10. The Firm expressed an unqualified opinion on MediaNet's 2009 fiscal year-end financial statements in an audit report dated December 7, 2009, which was included in MediaNet's January 13, 2010 Form 10-K filed with the U.S. Securities and Exchange Commission ("Commission").[15/] The report stated that the audit was conducted in accordance with PCAOB standards and that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP. Lake authorized the issuance of the audit report.

11. Respondents failed to comply with applicable PCAOB standards in connection with the audit of MediaNet's fiscal year 2009 financial statements. Specifically, Respondents failed to perform appropriate audit procedures with respect to MediaNet's reported accounts receivable and revenue.

Accounts receivable

12. In its 2009 financial statements, MediaNet reported accounts receivable of $70,375 at year end, which represented more than 34 percent of MediaNet's reported assets. Although Respondents identified MediaNet's accounts receivable as a significant audit area that presented the risk of material misstatement due to fraud, they failed to exercise due professional care and failed to obtain sufficient competent evidential matter concerning accounts receivable.[16/]

13. During the audit, MediaNet management provided Respondents with a report purporting to list all of the company's accounts receivable. The report contained more than 4,000 entries, including amounts totaling $1,158,912 and off-setting amounts totaling $1,150,165. The net balance of the accounts receivable listed on the report

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15/ MediaNet's fiscal year 2009 comprised January through September 2009.

16/ See AU § 150.02; AU § 230; AU § 326.

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was thus $8,747, i.e., less than 13 percent of the accounts receivable balance MediaNet ultimately reported in its 2009 financial statements.

14. Other than agreeing 11 of the 4,000 entries on the report management provided to various account statements, Respondents performed no procedures with respect to MediaNet's accounts receivable.[17/] Instead, Respondents proposed that MediaNet increase the accounts receivable total reflected in management's report by $61,628. In fact, Respondents highlighted various entries in the report that management could double count to support the $61,628 increase.

Revenue

15. Respondents also violated PCAOB standards by failing to perform adequate procedures to test the existence and valuation of MediaNet's reported revenue.[18/] Those failures occurred despite Respondents' recognition when planning the audit that MediaNet's revenue presented a risk of material misstatement due to fraud.[19/]

16. For fiscal year 2009, MediaNet reported revenue of approximately $1.7 million. During the audit, Respondents failed to perform any substantive testing of that reported revenue. That failure occurred even though Respondents obtained a schedule from management indicating that revenue may have been overstated by more than 80 percent.

17. Specifically, during the audit, Respondents obtained from management a system-generated report purporting to summarize MediaNet's sales by customer for the

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[17/] Under PCAOB standards, "there is a presumption that the auditor will request the confirmation of accounts receivable during an audit," unless the accounts receivable are immaterial or the auditor concludes that the use of confirmations would be ineffective. AU § 330.34, *The Confirmation Process*. Respondents did not request any confirmations of accounts receivable and, instead, documented that confirmation procedures were "not applicable," without further explanation. That statement was not sufficient under PCAOB standards to overcome the presumption that Respondents would request confirmation of accounts receivable. See id. § 330.35 ("[A]n auditor who has not requested confirmations in the examination of accounts receivable should document how he or she overcame this presumption").

[18/] See AU § 311; AU § 326.

[19/] Under PCAOB standards, an "auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition." AU § 316.41.

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entire fiscal year ("Sales Report"). According to the Sales Report, MediaNet's total sales for the year were only $277,454. Respondents failed both to test the revenue items contained in the Sales Report and to investigate or address the discrepancy between the Sales Report balance and MediaNet's reported revenue.

The Audit of China Logistics' 2009 Financial Statements

18. Hutech21 Co. Ltd. (f/k/a China Logistics, Inc.) ("China Logistics") was, at all relevant times, a Nevada corporation headquartered in the People's Republic of China ("PRC"). China Logistics' public filings disclose that it was engaged in the business of providing logistical services for car manufacturers, car components, food assortments, chemicals, paper, and machinery. Its common stock was registered under Section 12(b) of the Exchange Act, and its stock was quoted on the Pink Sheets. At all relevant times, China Logistics was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

19. The Firm expressed an unqualified opinion on China Logistics' 2009 fiscal year-end financial statements in an audit report dated April 12, 2010, which was included in China Logistics' Form 10-K filed with the Commission on April 16, 2010. The report stated that the audit was conducted in accordance with PCAOB standards and that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP. Lake authorized the issuance of the audit report.

20. Respondents failed to comply with applicable PCAOB standards in connection with the audit of China Logistics' fiscal year 2009 financial statements ("2009 China Logistics Audit"). Specifically, Respondents failed to obtain sufficient competent evidential matter as to the existence or valuation of approximately $3.8 million of China Logistics' inventory, which represented more than 35 percent of the Company's total reported assets.

21. PCAOB standards specify that "[o]bservation of inventories is a generally accepted auditing procedure," and that an auditor who has not employed that procedure "has the burden of justifying the opinion expressed."[20/] During the 2009 China Logistics Audit, Respondents failed to perform observation procedures or any other procedures to test the existence of the inventory the company reported.

22. Additionally, with respect to 89 percent of reported inventory (by value), Respondents did not perform any audit procedures at all, including any procedures

[20/] AU § 331.01.

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concerning valuation.[21/] As to the other 11% of reported inventory, Respondents purported to conduct valuation testing, but selected for testing only one item. Such limited testing failed to provide Respondents with adequate assurance concerning the valuation of the recorded inventory balance.

<u>The Audit of China Education's 2009 Financial Statements</u>

23. China Education Technology, Inc. ("China Education") was, at all relevant times, a Nevada corporation with its principal executive office in the PRC. China Education's public filings disclose that it was a high-tech company specializing in the research and development of education products and technology applications. Its common stock was registered under Section 12(g) of the Exchange Act, and its stock was quoted on the Pink Sheets. Since that time, China Education has filed a Form 15-12G Certification and Notice of Termination of Registration with the Commission. At all relevant times, China Education was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

24. The Firm expressed an unqualified opinion on China Education's 2009 fiscal year-end financial statements in an audit report dated May 12, 2010, which was included in China Education's Form 10-K filed with the Commission on May 14, 2010. The report stated that the audit (the "2009 China Education Audit") was conducted in accordance with PCAOB standards and that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP. Lake authorized the issuance of the audit report.

25. Just as in the 2009 China Logistics Audit, Respondents failed to exercise due professional care and failed to obtain sufficient competent evidential matter as to the existence and valuation of inventory in the 2009 China Education Audit.[22/] At year-end 2009, China Education reported inventory of $372,971, which was approximately 17.5 percent of reported assets. Respondents failed to conduct physical inventory counts or perform other procedures sufficient to verify the existence of this inventory.[23/] In fact, Respondents' work papers contain a template for an inventory count form that is blank. Respondents also failed to obtain any audit evidence or perform any audit

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[21/] Management represented to Respondents that that portion of China Logistics' inventory was in transit from its vendor to the end users.

[22/] <u>See</u> AU § 230; AU § 326.01, .25; AU § 331.

[23/] <u>See</u> AU §§ 326.01, .22, .25; AU §§ 331.09, .12.

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procedures concerning the valuation of China Education's inventory, also leaving blank audit programs related to testing inventory valuation.[24/]

The Audit of China Fruits' 2009 Financial Statements

26. China Fruits Corp. ("China Fruits") was, at all relevant times, a Nevada corporation headquartered in the PRC. China Fruits' public filings disclose that it was engaged in the business of manufacturing, trading, and distributing Nanfeng tangerines and tangerine-based products. China Fruits' common stock was registered under Section 12(g) of the Exchange Act and its stock is currently quoted on the OTC Bulletin Board. At all relevant times, China Fruits was an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

27. The Firm expressed an unqualified opinion on China Fruits' 2009 fiscal year-end financial statements in an audit report dated April 12, 2010, which was included in China Fruits' Form 10-K filed with the Commission on April 15, 2010. The report stated that the audit was conducted in accordance with PCAOB standards and that, in the Firm's opinion, the company's financial statements were fairly presented in all material respects in conformity with GAAP. Lake authorized the issuance of the report. Respondents failed to comply with applicable PCAOB standards in connection with the audit of China Fruits' fiscal year 2009 financial statements.

28. China Fruits disclosed in its Form 10-K (and Respondents knew at the time of the audit) that it had sold one of its business lines in the second quarter of 2009. China Fruits treated the sale as discontinued operations and recast its historical financial statements for prior periods, including for 2008, to account for the discontinued operations. Respondents failed to perform adequate audit procedures concerning the presentation and disclosure of the company's discontinued operations.

29. In fact, Respondents failed to plan or carry out essentially any audit procedures relating to China Fruits' classification of the results of its discontinued operations for 2008.[25/] Although China Fruits provided Respondents with an adjusting entry and an adjusted trial balance showing the reclassification for 2008, Respondents failed to perform any procedures to evaluate the reasonableness of the amounts attributed to discontinued operations for that year.[26/]

[24/] See AU § 326.22.

[25/] See AU § 230; AU § 311; AU § 326.

[26/] See AU § 230; AU § 326.01, .25.

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30. Respondents also failed to appropriately evaluate the amounts that China Fruits had attributed to discontinued operations for 2009.[27/] China Fruits' 2009 statement of operations included $683,603 in general and administrative expenses, which represented more than 60 percent of the total operating expenses China Fruits reported. Respondents' work papers, however, indicate that $174,950 of that amount should have been included in the results of discontinued operations rather than in general and administrative expenses. Respondents failed to plan or perform any steps to reconcile the reported amounts of general and administrative expenses from continuing operations with the contradictory information contained in the work papers.

31. After being alerted to these failures during a Board inspection, Respondents requested that China Fruits restate its financial statements to present properly its results from discontinued operations, which China Fruits did.[28/]

Violations Relating to Multiple Audits

32. Respondents also repeatedly violated PCAOB standards requiring them to identify, assess, and respond to risks of material misstatement due to fraud and to prepare appropriate audit documentation.

33. Specifically, Respondents failed, in connection with each of the Audits, to conduct the required audit team discussion concerning the risks of material misstatement due to fraud. Respondents also failed, in connection with three of the four Audits, to perform the required analytical procedures to identify "unusual transactions or events, and amounts, ratios, and trends that might indicate matters that have financial statement and audit planning implications."[29/]

34. With respect to the documentation of significant findings or issues required by AS 3, Respondents failed to document, in connection with three of the four Audits, significant unusual transactions or matters that could result in a modification of the audit report. Further, Respondents failed to document audit adjustments in connection with all four of the Audits.[30/]

27/ See id.

28/ See China Fruits Form 10-K/A, filed on May 3, 2011.

29/ AU § 316.14-18, .20-27, 28.

30/ See AS 3 ¶ 12.

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D. The Firm Violated PCAOB Rules and Quality Control Standards and Lake Knowingly or Recklessly Contributed to Those Violations

35. PCAOB rules require registered public accounting firms to comply with the Board's quality control standards,[31/] which, in turn, require every registered firm to "have a system of quality control for its accounting and auditing practice."[32/]

36. Under PCAOB quality control standards, a firm should establish policies and procedures that "provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."[33/] Those procedures should encompass "all phases of the design and execution of the engagement," including "planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement."[34/] The Firm failed to comply with these PCAOB quality control standards in connection with the Audits.

37. At all relevant times, the Firm failed to put policies and procedures in place to ensure that engagement personnel performed audit procedures necessary to comply with all PCAOB standards.[35/] As a result, in multiple instances, the Firm's personnel failed to complete necessary audit work before the Firm released its audit opinions for the Audits, and, in other instances, failed to document any significant work in critical audit areas.

38. In particular, the Firm failed to establish sufficient policies and procedures to provide it with reasonable assurance that its engagement personnel evaluated the risk that the financial statements under audit may be misstated due to fraud.[36/] As noted above, as a result of these quality control failures, the Firm failed, in conducting the Audits, to comply with PCAOB standards requiring engagement team members to

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[31/] See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3400T, *Interim Quality Control Standards*.

[32/] Quality Control ("QC") § 20.02, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

[33/] QC § 20.17; see also QC § 20.03.

[34/] QC § 20.18.

[35/] See QC § 20.17.

[36/] See AU § 316.

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discuss the potential for material misstatement due to fraud[37/] and to perform analytical procedures designed to assist in identifying risks of material misstatement due to fraud.[38/]

39. The Firm's system of quality control also failed to provide reasonable assurance that engagement personnel complied with PCAOB audit documentation requirements, as set forth in AS 3. As noted above, as a result, the Firm's Audits violated AS 3 in multiple respects.

40. PCAOB Rule 3502 prohibits an associated person of a registered public accounting firm from taking or omitting to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation of Board standards by that firm. Respondent Lake, the managing member of the Firm, was principally responsible for designing, implementing, and monitoring the Firm's system of quality control.[39/] Accordingly, Lake had overall responsibility for ensuring that the Firm complied with PCAOB rules and standards. All of the Firm's conduct described in paragraphs 37 through 39 above was either conduct of Lake's or omissions to act for which Lake was responsible. With respect to all such acts and omissions, Lake knew, or was reckless in not knowing, that his acts and omissions would directly and substantially contribute to the Firm's quality control violations described above. Lake thereby violated PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Lake & Associates, CPA's LLC, is hereby censured;

B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Lake & Associates, CPA's LLC, is revoked;

37/ See AU § 316.14-18, .20-27.

38/ AU § 316.28.

39/ See QC § 20.01, .17, .20, .22.

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C. After three (3) years from the date of this Order, Lake & Associates, CPA's LLC, may reapply for registration by filing an application pursuant to PCAOB Rule 2101;

D. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Jay Charles Lake, CPA, is hereby censured;

E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Jay Charles Lake, CPA, is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i); and

F. After three (3) years from the date of this Order, Jay Charles Lake, CPA, may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.[40/]

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

August 13, 2013

[40/] In considering any such petition, the Board will assess all of the factors described in PCAOB Rule 5302(b) and, among other things, will give weight to whether Mr. Lake has, in the period after the date of this Order, completed at least 200 hours of continuing professional education directly related to the audit of financial statements of issuers.