

*Canadian Public Accountability Board
and
Davidson & Company LLP*

PART I – Preamble

1. The Canadian Public Accountability Board’s (“CPAB”) mandate includes the oversight of firms that conduct audits of Canadian reporting issuers. In 2023, CPAB commenced an investigation of Davidson & Company LLP (Firm) into the allegations contained herein pursuant to Section 500 of the Rules of the Canadian Public Accountability Board (CPAB) (the “Rules”), as authorized by the *Canadian Public Accountability Board Act*, R.S.O. 2006, C. C-33 (the “Act”).
2. The evidence uncovered during the investigation constitutes multiple Violation Events as defined in section 103 (hh)¹ of the Rules, and as a result, CPAB imposed requirements and sanctions (together, “enforcement actions”).
3. Once CPAB determined that numerous Violation Events had occurred, it provided notice to the Firm of the enforcement actions that CPAB proposed to impose under Rule 601. The Firm did not petition for a review hearing. Accordingly, the enforcement actions took effect on October 3, 2024.

PART II – Parties

4. Davidson & Company LLP is a public accounting firm headquartered in Vancouver, British Columbia and registered with CPAB as a Participating Audit Firm pursuant to section 8 of the *Act* and section 200 of the Rules. The firm is currently the auditor for over 400 reporting issuers. During the time period when the violations occurred, the firm had between 347 and 400 reporting issuer clients.
5. Pursuant to National Instrument 52-108 - *Auditor Oversight*, auditors of Canadian reporting issuers are required to be registered with CPAB as a Participating Audit Firm. Participating Audit Firms are authorized to audit financial statements issued by Canadian reporting issuers. The Firm was, at all relevant times, registered with CPAB pursuant to CPAB Rule 201.

¹ “Violation Event” means (i) an act or practice, or omission to act, in violation of the Rules or Professional Standards that may have an effect on the provision of audit services to reporting issuers, (ii) a failure to supervise appropriately a person with a view to preventing violations of the Rules or Professional Standards, and such person has committed an act or omitted to act in violation of the Rules or Professional Standards that may have an effect on the provision of audit services to reporting issuers, (iii) a failure to cooperate with the terms of an Inspection or Investigation, or (iv) a failure to comply with the terms of any requirement, restriction or sanction imposed by the Board.

PART III – Facts

6. In May of 2023, the Firm notified CPAB that during an investigation by a foreign regulator, the Firm had identified multiple violations of partner and engagement quality control reviewer² rotation requirements related to two Canadian reporting issuers between the years of 2020 and 2022.
7. In July 2023, CPAB commenced an investigation to determine if similar conduct impacted additional Canadian reporting issuer audits. A number of audit files were selected for review in relation to compliance with Professional Standards³, including Rule 204 of the *Chartered Professional Accountants of British Columbia (CPABC) Code of Professional Conduct* (the “Independence Rules”).
8. In addition to the violations reported by the Firm, CPAB’s investigation identified an additional 29 violations of the Independence Rules, all of which occurred between 2013 and 2023 in relation to 14 Canadian reporting issuers. Furthermore, violations of the Canadian Standard on Quality Control 1 (CSQC 1) were identified.⁴

PART IV – Applicable standards

9. The Independence Rules and Professional Standards applicable in this case are collectively essential to safeguarding the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

Independence Rules

10. In accordance with Rule 204 of the *Chartered Professional Accountants of British Columbia (CPABC) Code of Professional Conduct*, an auditor is prohibited from continuing as the lead engagement partner or engagement quality control reviewer with respect to the audit of the financial statements of a reporting issuer⁵ for more than seven years in total, and shall not thereafter participate in an audit of the financial statements of the reporting issuer until a further five years have elapsed.⁶ This five-year period is often referred to as the “cooling off period”.
11. The Independence Rules further specify that when an audit client becomes a reporting issuer, the engagement partner or engagement quality control reviewer who has served in that capacity

² For violations occurring after December 15, 2022 the applicable standards as referenced in footnote 4 apply to the Engagement Quality Reviewer as set out in the new Canadian standards on quality management.

³ As defined in Section 300 of the CPAB Rules.

⁴ The majority of the violations occurred prior to 2023 at which time the Canadian Standard on Quality Control (CSQC 1) was in effect. As of December 15, 2022, the applicable standards were the Canadian Standard on Quality Management (CSQM 1), quality management for firms that perform audits and reviews of financial statements, or other assurance or related services engagements and the Canadian Standard on Quality Management (CSQM 2), engagement quality reviews. Accordingly, the equivalent provisions of this standard were applied in relation to violations identified from December 15, 2022 onwards, including paragraphs 29 and 35 of CSQM 1 and paragraphs 18b, 20b, 25d of CSQM 2.

⁵ As defined in the *CPA BC Code of Professional Conduct* Rule 204.

⁶ *CPA BC Code of Conduct* Rule 204(a).

for five or more years at the time the client becomes a reporting issuer may only continue in that capacity for two more years.

System of Quality Control Standards

12. The *Canadian Standard on Quality Control (CSQC 1)*⁷ requires the firm to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel maintain independence where required by relevant ethical requirements. These policies and procedures are required to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate those threats or to reduce them to an acceptable level by applying safeguards.
13. Under the standard, a firm's policies and procedures are also required to provide assurance that the firm is notified of violations of independence requirements so they can be remediated promptly.
14. In addition, CSQC 1 requires the firm to establish policies and procedures to safeguard against the threat of long association and ensure the rotation of the engagement partner and engagement quality control reviewer are in compliance with ethical requirements. The Firm's policies and procedures and implementation thereof did not adequately ensure compliance with rotation requirements.

Canadian Auditing Standards (CAS)

15. *Canadian Audit Standards 200* and *220*, also mandate compliance with relevant ethical requirements including those related to independence.⁸

Davidson & Company LLP failed to comply with applicable standards

16. During the investigation, CPAB identified numerous violations of the applicable Independence Rules and requirements outlined in CSQC 1⁹ and CAS 200 and 220.
17. On thirteen occasions, the engagement partner continued to act on an engagement past the seven-year maximum set out in the Independence Rules. In addition, on one other occasion, the engagement partner participated in an audit of the financial statements of a reporting issuer prior to the 5-year cooling off period having elapsed.
18. On fourteen occasions, the engagement quality control reviewer continued to act on an engagement past the seven-year maximum set out in the Independence Rules. In addition, on one occasion, the engagement quality control reviewer participated in an audit of the financial statements of the reporting issuer within the cooling off period.

⁷ See footnote 4 for equivalent provisions of CSQM 1.

⁸ *Canadian Auditing Standard 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards (CAS 200)*, paragraph 14 and paragraphs CA17 through to and including A20; *Canadian Auditing Standard 220 Quality Management for an Audit of Financial Statements (CAS 220)*, paragraphs 16 through to and including 21 and paragraph 41.

⁹ See footnote 4 regarding the applicability of CSQM 1 and CSQM 2.

19. Furthermore, CPAB inquired into the Firm's internal processes and controls in relation to its partner rotation schedule (the "Schedule") and identified that the Firm's processes, policies and procedures for tracking engagement partner and engagement quality control reviewer rotations and cooling off periods did not:
- Provide assurance that the firm and its personnel maintain independence.
 - Provide assurance that the firm is notified of violations of independence requirements so they can be remediated promptly.
 - Safeguard against the threat of long association and ensure the rotation of the engagement partner and engagement quality control reviewer are in compliance with ethical requirements.
20. The procedures in place at the firm were manual in nature, and individual engagement teams were not required to confirm compliance with the rotation requirements for individual audit files, which led engagement teams to rely on inaccurate information contained in the Schedule. Responsibility for the Schedule was assigned to the audit quality partner and only updated on an annual basis. The process for updating the Schedule was not sufficiently robust to manage the size of the Firm's reporting issuer practice, including the appropriate categorization of certain reporting issuers which frequently rose above and fell below the \$10 million dollar market capitalization or total assets threshold, which determines when an entity is considered a reporting issuer under the Independence Rules.¹⁰
21. These inadequacies in the Firm's internal policies and procedures constitute violations of the Canadian Standard on Quality Control 1 (CSQC 1).¹¹
22. The conduct outlined above constitutes violations of the following Professional Standards:
- i. Rule 204, Chartered Professional Accountants of British Columbia (CPABC) *Code of Professional Conduct*.
 - ii. The Canadian Standard on Quality Control (CSQC 1).¹²
 - iii. The Canadian Standard on Quality Management 1 (CSQM 1).¹³
 - iv. The Canadian Standard on Quality Management 2 (CSQM 2).¹⁴
 - v. The Canadian Auditing Standard 200¹⁵ and 220.¹⁶

¹⁰ See definition of "Reporting Issuer" in the *CPA BC Code of Conduct* Rule 204: "reporting issuer" means an entity that is defined as a reporting issuer under the applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

¹¹ See footnote 4.

¹² Paragraphs C21-23, C25, 38 and 48.

¹³ Paragraphs 29 and 35.

¹⁴ Paragraphs 18b, 20b, 25d.

¹⁵ Paragraph 14 and paragraphs CA17 through to and including A20.

¹⁶ Paragraphs 16 through to and including 21 and paragraph 41.

PART V – Enforcement actions imposed

23. In assessing the appropriate enforcement actions under CPAB Rule 601, CPAB considered the Firm's cooperation in this matter including that the Firm:
- Promptly reported the initial violations to CPAB.
 - Conducted an internal preliminary review of a sample of files, the results of which were provided to CPAB.
 - Acknowledged the deficiencies and causal factors identified.
 - Proactively initiated the process of implementing remedial measures to prevent similar occurrences in the future, including a software system to automate the partner rotation tracking process.
24. In view of the foregoing, and to maintain the confidence of the investing public that audits of Canadian reporting issuers are performed independently, CPAB determines it appropriate to impose the following enforcement actions:
- a. The Firm shall be publicly censured.
 - b. The Firm shall pay a monetary assessment to recover CPAB's costs of enhanced regulatory oversight and monitoring the Firm's compliance with the enforcement action.
 - c. The Firm shall appoint an independent monitor to oversee and report to CPAB quarterly on each enforcement action.
 - d. The Firm shall appoint an independent engagement partner and engagement quality reviewer to conduct a review of all audit files where a violation occurred after January 1, 2021, to determine whether the Firm was objective and impartial, and report the conclusions to CPAB.
 - e. The Firm shall provide to CPAB an updated partner rotation schedule corrected for all historical inaccuracies along with a detailed plan of the design of controls which will be implemented to ensure rotation requirements are complied with on a go forward basis.
 - f. The Firm shall test the design, implementation, and operating effectiveness of the controls referred to in paragraph (e), beginning on December 31, 2024, and quarterly thereafter for a period of 18 months.
 - g. The Firm shall communicate in writing to the management and the audit committee of each of the impacted reporting issuers of each of the identified violations.

- h. The Firm shall provide independence training to all Firm professionals, including the rotation requirements, the policies and procedures the Firm has put in place to address prior deficiencies, and the updated requirements for all engagement teams.

PART VI – Investigation costs

- 25. In addition to the above noted enforcement actions, the Firm was required to pay CPAB approximately \$100,000 to recoup its investigation costs.¹⁷

¹⁷ Pursuant to paragraph 2 (d) of the Participation Agreement between CPAB and the Firm.