

**Canadian Public Accountability Board
and
Hay & Watson, Chartered Professional Accountants**

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 2022, CPAB commenced an investigation of Hay & Watson, Chartered Professional Accountants into the allegations contained herein pursuant to Section 500 of the Rules of the Canadian Public Accountability Board (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 constitute multiple Violation Events as defined in section 103(hh)¹ of the Rules and as a result, CPAB has ordered the termination of Hay & Watson, Chartered Professional Accountants (or the “Firm”) status as a participant and its Participation Agreement under Section 601 of the Rules.
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 June 23, 2023.

PART II – Parties

4. The Firm was 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 was the auditor for less than 50 reporting issuers.

PART III – Facts

5. Together the Canadian Auditing Standards (CAS) and the Canadian Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (CSQC 1) provide for detailed and comprehensive audit documentation requirements that, pursuant to the CPAB Rules, Participating Audit Firms must follow in auditing Canadian reporting issuers.

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.

6. During the investigation CPAB reviewed the work papers for five audit engagements related to three reporting issuers. In all five of the audit files reviewed, CPAB discovered widespread and serious violations of audit documentation standards and a fundamental absence of supervision and review. The result was that it was unclear what audit work had been performed, reviewed and completed prior to the audit report dates. The combination of these violations concentrated in such high numbers in each of these files raised significant concerns regarding the quality of the Firm's audit work.
7. For example, in one case CPAB determined that the final set of audit work papers was not assembled in accordance with professional standards and approximately half the documents were modified after the report release date, and approximately 20% of those work papers were modified after the file assembly period in violation of the applicable professional standards. No documentation existed in the file to specify what changes were made, who made the changes or why the changes were required, resulting in multiple standard violations.²
8. In addition, there was no evidence in the file to support that any of the work papers were reviewed by the engagement manager, engagement partner or engagement quality control reviewer and approximately 22% of work papers were not signed off as prepared by a member of the engagement team.³
9. In all five of the files reviewed the result of these significant and widespread violations of professional standards were such that an experienced auditor would not understand what work was completed on the audit prior to the report release date or when the required engagement partner or engagement quality control reviewer reviews were completed.
10. In addition to the numerous violations related to audit documentation, and supervision and review, two focus areas⁴ for two of the files were also selected for review. This component of the investigation revealed additional Violation Events in relation to the appropriateness and sufficiency of audit evidence contained in the files to support the documented conclusions.
11. As a whole the investigative findings identified in relation to the five audits reviewed, represent multiple breaches of one or more professional standards, each of which constitute a Violation Event as defined in CPAB's Rules. Specifically, the following Canadian auditing standards were breached:
 - a. CAS 230, Audit Documentation⁵.
 - b. CAS 220, Quality Control for an Audit of Financial Statements⁶.
 - c. CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment⁷.
 - d. CAS 330, The Auditor's Responses to Assessed Risks.⁸

² CAS 230 at para 8, 13, 14, and 16.

³ CAS 220 at para 15, 17, 19, 25 (b) and (c).

⁴ A focus area is a material financial statement balance or transaction stream.

⁵ At paras 8, 9, 13, 14 (A.21), 16.

⁶ At paras 15, 16, 17, 19, and 25.

⁷ At paras 25-29.

⁸ At paras 6, 7, 18, 19

- e. CAS 500, Audit Evidence.⁹
- f. CAS 540, Auditing Accounting Estimates and Related Disclosures.¹⁰
- g. CSQC 1, Engagement Performance.¹¹

Part IV – Enforcement Actions Imposed

12. Due to the numerous Violation Events identified in multiple files and audit engagements in multiple years, and to contribute to public confidence in the integrity of financial reporting by public companies, CPAB determined it appropriate to impose the following enforcement actions under Rule 601:
- a. The Firm shall be terminated as a Participating Audit Firm¹².
 - b. The Firm shall terminate all of its reporting issuer audit engagements.
 - c. The Firm shall pay the costs of the investigation pursuant to clause 2(d) of the Participation Agreement as required by CPAB.
 - d. The Firm shall be publicly censured¹³.

⁹ At paras 6, 7, and 9.

¹⁰ At para 18(b), 28 and 29.

¹¹ At para 11 and 45

¹² Termination was effective June 23, 2023.

¹³ The censure will remain on the CPAB website in perpetuity.