

*Canadian Public Accountability Board
And
Dale Matheson Carr-Hilton LaBonte LLP*

Part I – Preamble

1. The Canadian Public Accountability Board’s (CPAB) mandate includes the oversight of firms that conduct audits of Canadian reporting issuers¹. In 2022, CPAB conducted an inspection of six reporting issuer files audited by Dale Matheson Carr-Hilton LLP pursuant to Section 400 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. Two of the six files inspected contained significant inspection findings², each of which constitute a separate Violation Event³ (as defined in the Rules). As a result of these Violation Events and Dale Matheson Carr-Hilton LLP’s elevated significant inspection findings over the last three consecutive inspections (2020, 2021 and 2022) CPAB imposed a restriction on Dale Matheson Carr-Hilton LLP’s practice under Rule 601(f) as well as requirements under Rule 601(a), (e), (i) and (k) and a sanction under Rule 601(h). These actions have been taken in accordance with CPAB’s mandate to foster confidence in the integrity of financial reporting by Canadian reporting issuers.

PART II – The Parties

3. Dale Matheson Carr-Hilton LLP (the “Firm” or “DMCL”) is a limited liability partnership located in the province of British Columbia. It has a public company audit practice and at the time of CPAB’s 2022 inspection, the Firm audited approximately 268 reporting issuers.

¹A reporting issuer is a company that has gone public by issuing securities under a prospectus or is listed on a recognized stock exchange. Reporting issuer is defined within Part/Section 1 of each province and territories Securities Act.

² A significant inspection finding is defined as a significant deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work in the current year to support the audit opinion and/or is required to make significant changes to its audit approach.

³ “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 CPAB.

4. 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. DMCL was, at all relevant times, registered with CPAB pursuant to Rule 200.

PART III – Facts

5. DMCL is inspected annually by CPAB. In 2020, CPAB inspected five files and identified five significant inspection findings in the Firm’s application of the Canadian Generally Accepted Auditing Standards related to a material financial statement balance or transaction stream. Four of the five files, or 80 per cent of the files inspected, had at least one significant inspection finding. In 2021 CPAB inspected six files and identified five significant findings. Four of the six files, or 67 per cent of files inspected, had at least one significant finding.
6. As a consequence of the 2020 and 2021 inspections, and in the interest of improving audit quality at the Firm, certain enforcement actions were imposed on the Firm in each of these years. The Firm failed to implement one of the enforcement actions imposed⁴ as a consequence of the 2021 inspection to CPAB’s satisfaction and remains outstanding.
7. During the most recent inspection in 2022, CPAB inspected six audit files and identified significant inspection findings in two files or 33 per cent of the files inspected. The results of the 2022 inspection, while an improvement over previous inspections, indicate that concerns over audit quality still have not been sufficiently addressed.
8. Each of the significant inspection findings identified during CPAB’s 2022 inspection, in relation to two audits of the financial statements for the year ended 2021, represents a breach of one or more professional standard⁵ and constitutes a Violation Event as defined in CPAB’s Rules. Specifically, the following Canadian Auditing Standards (CAS) were breached:
 - i. CAS 220, *Quality Control of an Audit of Financial Statements*.
 - ii. CAS 230, *Audit Documentation*.
 - iii. CAS 500, *Audit Evidence*.
 - iv. CAS 540, *Auditing Accounting Estimates and Related Disclosures*.

Part IV – Enforcement actions imposed

9. In view of the Violation Events outlined above, the Firm’s failure to implement one of the previously imposed enforcement actions to CPAB’s satisfaction, 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:

⁴ Requirement to implement an engagement budgeting tool for all reporting issuer clients and a resource scheduling tool for all professional staff involved in the audits of reporting issuers to CPAB’s satisfaction.

⁵ CPAB Rules require that a participating audit firm and the designated professionals of such firm shall comply with auditing standards generally accepted in Canada, including the Canadian Auditing Standards, and Canadian Standards on Quality Control.

- a. The Firm is prohibited from accepting new elevated or high-risk reporting issuer clients including those resulting from initial public offerings, reverse takeovers or other transactions. For greater clarity, an existing private company audit client seeking to become a reporting issuer through initial public offering, reverse takeover or other transaction is considered a new reporting issuer.

In compliance with this restriction, the Firm has provided definitions of elevated and high-risk Canadian reporting issuer clients that are acceptable to CPAB.

- b. The Firm shall be publicly censured⁶.
10. In addition to the actions outlined above, CPAB requires the Firm to implement a variety of measures aimed at improving audit quality including: i) appointment of an external professional to perform internal quality monitoring of the Firm's system of quality management and individual completed audit engagements, ii) engagement of an external party to provide professional education and training to all reporting issuer assurance partners and staff and iii) implementation of a new budgeting and scheduling tool. The Firm is also subject to enhanced CPAB oversight in the form of quarterly meetings and will be required to pay a monetary assessment to recover CPAB's costs of enhanced regulatory oversight and monitoring the Firm's compliance with the enforcement actions.
 11. CPAB determined that a number of Violation Events occurred and provided notice to the Firm of the proposed enforcement actions that CPAB intended to impose under Rule 601. The enforcement actions imposed took effect on May 31, 2023.
 12. Each enforcement action imposed on the Firm shall continue until CPAB has carried out a follow-up inspection and the Firm has, to CPAB's satisfaction, implemented each of the enforcement actions imposed and has demonstrated a sustained improvement in audit quality.

⁶ The censure will remain on the CPAB website for four years following the termination of the restriction noted in subparagraph 9. a).