

Canadian Public Accountability Board And Smythe LLP

Part I – Preamble

1. The Canadian Public Accountability Board (CPAB) conducted an inspection of two reporting issuer¹ audit files during the 2022 inspection cycle 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”). Both files inspected contained significant inspection findings², each of which constitute separate Violation Events³ (as defined in the Rules). As a result of these Violation Events and Smythe LLP’s elevated significant inspection findings over consecutive inspections (2021 and 2022), CPAB imposed a restriction on Smythe LLP’s practice under Rule 601(f) as well as requirements under Rule 601 (i) and (k) and a sanction under Rule 601(h).
2. 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. Smythe LLP (the “Firm” or “Smythe”) is a limited liability partnership located in the province of British Columbia. It has a public company audit practice which, at the time of CPAB’s inspection, audited approximately 117 reporting issuers which were performed by four audit partners.
4. Pursuant to National Instrument 52-108 Auditor Oversight, auditors of 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. Smythe was, at all relevant times, registered with CPAB pursuant to Rule 200.

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.

PART III – Facts

5. Smythe is subject to annual inspections by CPAB. In both 2021 and 2022, CPAB inspected two audit files (four in total) and identified nine significant inspection findings, among other deficiencies, in its application of Canadian Generally Accepted Auditing Standards related to a material financial statement balance or transaction stream. At least one significant inspection finding was identified in each of the four files.
6. As a consequence of the 2021 inspection, in the interest of improving audit quality at the Firm, certain requirements were imposed on the Firm. The results of the 2022 inspection indicate that concerns over audit quality have not been sufficiently addressed.
7. Each of the deficiencies identified during CPAB's 2022 inspection, in relation to two audits of the financial statements for the years ended 2021 and 2022, represents a breach of one or more professional standards⁴ and constitutes a Violation Event as defined in CPAB's Rules. Specifically, the following Canadian Auditing Standards (CAS):
 - 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
 - v. CAS 220, Quality Control of an Audit of Financial Statements
 - vi. Canadian Standard on Quality Control 1 - quality control for firms that perform audits and reviews of financial statements, and other assurance engagements.

Part IV – Enforcement actions imposed

8. In view of the Violation Events outlined above, and to contribute to public confidence in the integrity of financial reporting by reporting issuers, CPAB determines it appropriate to impose the following enforcement actions:
 - a. The Firm is prohibited from accepting new reporting issuer audit 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.
 - b. The Firm shall be publicly censured⁵.

⁴ 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.

⁵ The censure will remain on the CPAB website for four years following the termination of the restriction noted in subparagraph 8. a).

9. In addition to the restriction on its practice, CPAB requires the Firm to continue to, or begin to, implement a variety of measures aimed at improving audit quality including: i) the completion of an in-depth root cause analysis; ii) the development and implementation of an audit quality action plan; and iii) testing of the operating effectiveness of a variety of controls. The firm is also subject to increased CPAB oversight through bi-monthly meetings and will be required to pay a monetary assessment to recover enhanced monitoring costs incurred by CPAB.
10. 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 took effect on April 21, 2023.
11. 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 requirements imposed and has demonstrated a sustained improvement in audit quality.