

cpab risk alert

Acquisitions of a business or assets that were impaired by year end

This audit risk alert provides considerations for auditors evaluating acquisitions of a business or assets that appear to have little or no operating history or actual value, and that were partially or fully impaired by year end.

The Canadian Securities Administrators (CSA) published CSA Staff Notice 51-366 in July 2025 relating to regulatory concerns with certain asset or business acquisitions, that are primarily taking place in venture markets, with misleading disclosures that could constitute market manipulation. The guidance in the staff notice relates to reporting issuers that distribute a significant number of securities to acquire assets or a business that appear to have little or no value or operating history and paying what appears to be inflated prices.

The Canadian Public Accountability Board (CPAB) has also identified significant findings in the inspection of the audits of Canadian reporting issuers that acquired a business or assets during the year with similar characteristics as noted in the CSA Staff notice and recognized a significant impairment or were fully written off by year end. These findings related to auditors not identifying and evaluating potential fraud risk factors to determine if these factors, individually or in aggregate, represented a risk of material misstatement due to fraud.

In addition, CPAB observed situations where fraud risk factors are identified, however the auditor determines these transactions have no risk of material misstatement due to fraud because the acquired business or asset was impaired by year end, resulting in an immaterial or nil value at year end. As a result, insufficient audit procedures are performed over the initial transactions to evaluate whether the asset acquired met the definition of and recognition criteria for an asset and what changed between the date of the acquisition and the events that led to the recognition of the impairment. Auditors did not consider whether there is a risk that the company issued shares for assets that did not exist, or that it purposely ascribed a value with no basis. It may also result in potentially inflated securities prices of the reporting issuer between the acquisition and the time the impairment is recorded.

CPAB is concerned with auditors not applying appropriate professional skepticism when evaluating significant and unusual transactions that require more persuasive audit evidence, and are not assessing whether fraud risk factors exist.

Examples of inspection findings where auditors did not adequately evaluate potential fraud risk factors include:

The economic substance of the transaction	Understanding the business rationale for the acquisition, considering the stage of development of the business or asset being acquired. Auditors need to apply professional skepticism when significant value has been ascribed to the business or asset, and: • The business acquired has had little or no revenue and requires a significant capital outlay. • Value is based on assumptions that are not reasonable nor supportable.
Whether the transaction contains unusual terms	Evaluating the terms of the transaction contracts is key to understanding the transaction structure and its purpose. Unusual terms such as consulting contracts with involved parties that do not seem to provide specific benefit to the reporting issuer, priority payment of debt assumed through the acquisition, among others, are key for the auditor to understand and evaluate.
The potential involvement of undisclosed related parties	Considering who ultimately benefited from the transaction, including whether the transaction contains unnecessary complexity or is structured through a series of complex transactions that could disguise related parties as arms length. For example: • The business or asset was previously acquired by another party for a much lower amount and that party does not seem to have further advanced the business or developed the asset before selling it to the reporting issuer. • New entities were created to facilitate the transactions, however they seemed to have no clear purpose or there were foreign entities involved without a rationale for the foreign location. • The transaction was among a small group of individuals or known business partners that may have been intentionally structured to not meet the definition of a related party under the applicable accounting standards.
Misleading information or misrepresentation by management and those charged with governance	Management and those charged with governance may have knowingly disclosed information in the financial statements, Management Discussion and Analysis, or in the company's press releases, that could be considered false and/or misleading to investors. Although the auditor is not responsible for the accuracy of the press releases issued by the company, they provide important insight into what the reporting issuer communicated to the market at the time of the acquisition. Where these press releases contain potentially false or misleading information, the auditor needs to be alert to the possibility that it could have been done for the purpose of misleading investors and artificially promoting interest in the reporting issuer's securities.

When the sufficiency of audit evidence obtained does not address the identified risks, the auditor attempts to obtain further audit evidence. This may include use of specialists, for example a valuation or a forensic expert. In circumstances where the auditor is unable to obtain sufficient appropriate audit evidence to respond to the identified risks of material misstatement due to fraud the auditor is required to evaluate the impact on their audit opinion.

Learn more

CPAB has highlighted similar concerns related to these types of transactions in our series, [Strengthening Audit Quality, Audit Evidence](#) published March 2022. CPAB continues to monitor emerging issues through our inspections and shares observations through various communications. For more information refer to our [website](#).

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