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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of K.R. Margetson Ltd. and Keith R.
Margetson,*

Respondents.

PCAOB Release No. 105-2023-023

September 12, 2023

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) censuring K.R. Margetson Ltd. (“KRM” or the “Firm”) and Keith R. Margetson (“Margetson”) (collectively, “Respondents”);
- (2) imposing a \$30,000 civil money penalty jointly and severally upon Respondents;
- (3) revoking the registration of KRM;¹
- (4) requiring the Firm to undertake certain remedial measures prior to submitting any future registration application; and
- (5) barring Margetson from being associated with a registered public accounting firm² and limiting Margetson’s activities for an additional period of one year following the termination of the bar.

The Board is imposing these sanctions on the basis of its findings that: (a) the Firm and Margetson violated PCAOB rules and standards in connection with the audit of an issuer; (b) the Firm violated PCAOB quality control standards; and (c) Margetson violated PCAOB rules by directly and substantially contributing to the Firm’s violations of PCAOB quality control standards.

¹ KRM may reapply for registration after one year from the date of this Order.

² Margetson may file a petition for Board consent to associate with a registered public accounting firm after one year from the date of this Order.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rule 5200(a)(1) against Respondents.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement (“Offers”) that the Board has determined to accept. Solely for purposes of these proceedings, and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board’s jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.³

III.

On the basis of Respondents’ Offers, the Board finds that:⁴

A. Respondents

1. **K.R. Margetson Ltd.** is a public accounting firm in North Vancouver, British Columbia. The Firm is licensed by the Chartered Professional Accountants of British Columbia. KRM registered with the Board on April 6, 2004, and has been subject to PCAOB inspection five times. At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

³ The findings herein are made pursuant to the Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

⁴ The Board finds that the Respondents’ conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

2. **Keith R. Margetson** is the sole partner and president of the Firm. He is a Chartered Professional Accountant (CA, CPA) licensed by the Chartered Professional Accountants of British Columbia. At all relevant times, Margetson was an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). He was the engagement partner for the fiscal year ended December 31, 2020 audit of Madison Technologies Inc. (“2020 Madison Audit”) and was responsible for KRM’s quality control policies and procedures.

B. Issuer

3. **Madison Technologies Inc.** (“Madison”) is incorporated under the laws of the state of Nevada. Madison’s public filings disclose that during the relevant times, Madison was engaged in the deployment of women’s shaving products. KRM issued an audit report on Madison’s 2020 financial statements on April 15, 2021. At all relevant times, Madison was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

4. Over the course of several PCAOB inspections prior to the 2020 Madison Audit, Respondents were put on notice of deficiencies in the Firm’s system of quality control and audit work around complex transactions. Notwithstanding their knowledge of these issues, Respondents failed to make adequate changes to improve the Firm’s system of quality control so that it would provide reasonable assurance that its personnel complied with professional standards in connection with conducting PCAOB audits.

5. When confronted with a complex transaction during the 2020 Madison Audit—Madison’s acquisition of a license in exchange for certain convertible preferred stock—Respondents failed to perform adequate audit procedures to obtain sufficient audit evidence. In particular, Respondents failed to appropriately evaluate the reasonableness of a discount rate used in developing the valuation estimate, in violation of PCAOB standards.

6. As evidenced by Respondents’ audit violations even after being put on notice of similar issues as a result of prior PCAOB inspection results, the Firm violated PCAOB quality control standards by failing to properly design and implement adequate quality control policies and procedures. Margetson directly and substantially contributed to those quality control violations.

D. Respondents Violated PCAOB Rules and Standards

7. From 2010 through 2019, the PCAOB performed four inspections of the Firm, identifying and communicating to KRM after each inspection both deficiencies in the Firm’s

performance of issuer audits and deficiencies in the Firm's system of quality control. Among other things, PCAOB inspectors repeatedly identified quality control defects related to the Firm's testing of complex transactions. For example, in Part II of the Board's 2010 inspection report, the Board found that the Firm's system of quality control did not provide reasonable assurance that Firm personnel would possess technical competence or appropriately exercise due care and professional skepticism. In Part II of the Board's 2013 inspection report, the Board found that significant deficiencies relating to the Firm's failure to appropriately test the valuation of assets acquired in a business combination provided cause for concern regarding the Firm's quality control policies and procedures relating to the Firm's testing of business combinations. In Part II of the Board's 2016 inspection report, the Board found that the Firm's audit deficiencies were attributable to engagement personnel failing to perform issuer audits with due professional care and professional skepticism. And in Part II of the Board's 2019 inspection report, the Board found that the Firm's system of quality control did not provide reasonable assurance that the work performed by Firm personnel with respect to testing related party transactions would comply with PCAOB standards.

8. The Board's 2010, 2013, 2016, and 2019 inspection reports contained criticisms of KRM's system of quality control that were, in each instance, made public after KRM failed to address the criticisms to the Board's satisfaction within twelve months of the date of the respective report.

9. Despite KRM's awareness of these issues identified during PCAOB inspections, KRM did not implement any meaningful corrective action to improve the Firm's system of quality control, as evidenced by the Firm's recurring inspection criticisms. The Firm's quality control defects contributed to the violations of auditing standards during the 2020 Madison Audit.

i. KRM and Margetson Violated PCAOB Rules and Auditing Standards in the 2020 Madison Audit

10. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.⁵ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken

⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.⁶

11. PCAOB standards require the auditor to “plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis” for the auditor’s opinion.⁷ To be appropriate, audit evidence must be both relevant and reliable.⁸

12. In addition, AS 1015, *Due Professional Care in the Performance of Work*, requires “[d]ue professional care . . . to be exercised in the planning and performance of the audit and the preparation of the report.”⁹ Due professional care “requires the auditor to exercise professional skepticism[,]” which is an “attitude that includes a questioning mind and a critical assessment of audit evidence.”¹⁰ “Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence.”¹¹

13. AS 2501, *Auditing Accounting Estimates, Including Fair Value Measurements*, establishes requirements for auditing accounting estimates in significant accounts and disclosures in financial statements, including that an auditor “identify which of the assumptions used by the company are significant assumptions to the accounting estimate, that is, the assumptions that are important to the recognition or measurement of the accounting estimate in the financial statements.”¹² AS 2501 further states that an “auditor should evaluate the reasonableness of the significant assumptions used by the company to develop the [accounting] estimate, both individually and in combination.” That includes evaluating whether “[t]he company has a reasonable basis for the significant assumptions used and, when applicable, for its selection of assumptions from a range of potential assumptions;” and that the significant assumptions are consistent with relevant factors.¹³

⁶ AS 3101.02, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

⁷ AS 1105.04, *Audit Evidence*.

⁸ *See id.* at .06.

⁹ AS 1015.01.

¹⁰ *Id.* at .07.

¹¹ *Id.* at .08.

¹² AS 2501.15.

¹³ *Id.* at .16 (identifying those factors as relevant industry, regulatory, and other external factors, including economic conditions; the company’s objectives, strategies, and business risks; existing

14. Madison disclosed an agreement it entered into, on July 17, 2020, to acquire a license to manufacture, promote, and sell branded women’s lifestyle products. Under the terms of the transaction, Madison agreed to issue preferred stock that was convertible into 95 percent of the common stock of Madison.

15. Madison recorded the acquisition of the license in its financial statements as an intangible asset at a value that mainly consisted of the estimated value of the convertible preferred stock issued in exchange. The value attributed to the convertible preferred stock represented more than 80 percent of Madison’s total assets.

16. In valuing the convertible preferred stock, and thus the license, Madison applied a 50 percent discount to the value of 95 percent of Madison’s common stock into which the preferred stock could be converted. Madison’s management attributed the discount to the lightly traded history of Madison’s shares.

17. In performing the 2020 Madison Audit, KRM and Margetson did not perform adequate procedures to determine whether the license was properly valued or obtain sufficient evidence to support the conclusion that Madison’s valuation was reasonable. In particular, KRM and Margetson did not appropriately evaluate whether Madison had a reasonable basis for its assumption that a 50 percent discount should be applied to the value of its common stock.

18. As a result, Respondents violated AS 2501, AS 1105, and AS 1015 because they (a) failed to perform appropriate procedures to evaluate the reasonableness of the significant assumptions used by the issuer to develop the valuation estimate; (b) failed to obtain sufficient appropriate audit evidence with respect to the valuation of the Madison license; and (c) failed to exercise due care and professional skepticism.

ii. KRM Violated PCAOB Quality Control Standards

19. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board’s quality control standards.¹⁴ These standards require that a registered firm have a system of quality control for its accounting and auditing practice.¹⁵ “A

marketing information; historical or recent experience, taking into account changes in conditions and events affecting the company; and other significant assumptions used by the company in other estimates tested).

¹⁴ See PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

¹⁵ See Quality Control Standard 20.01, *System of Quality Control for a CPA Firm’s Accounting and Auditing Practice* (“QC § 20”).

system of quality control is broadly defined as a process to provide the firm with reasonable assurance that its personnel comply with applicable professional standards and the firm’s standards of quality.”¹⁶

20. PCAOB quality control standards require firms to establish policies and procedures sufficient to provide it with “reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality.”¹⁷ PCAOB quality control standards further require firms to establish policies and procedures that provide reasonable assurance that the firm “[u]ndertakes only those engagements that the firm can reasonably expect to be completed with professional competence.”¹⁸

21. KRM was repeatedly put on notice by PCAOB inspections of deficiencies in the Firm’s system of quality control and audit procedures as to its testing around acquired intangible assets and other complex transactions. Nevertheless, the Firm failed to take steps to ensure that its personnel would comply with PCAOB standards in this area. As a result, and as evidenced by Respondents’ violations in connection with the 2020 Madison Audit, the Firm’s policies and procedures failed to provide reasonable assurance that the Firm’s public audit work would comply with PCAOB standards.

22. As a result of this conduct, KRM violated QC § 20.

iii. Margetson Directly and Substantially Contributed to KRM’s Quality Control Violations

23. A person associated with a registered public accounting firm shall not take or omit to take an action “knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting firm of the Act, the Rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.”¹⁹

¹⁶ *Id.* at .03.

¹⁷ *Id.* at .17.

¹⁸ *Id.* at .15.

¹⁹ PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

24. As described above, Margetson directly and substantially contributed to KRM's violations of PCAOB rules and quality control standards. As a sole practitioner and KRM's sole partner, Margetson was responsible for developing and maintaining quality control policies and procedures applicable to KRM's public auditing practice.

25. At the time of the 2020 Madison Audit, Margetson knew or was reckless in not knowing that the Firm's system of quality control was inadequate. His failure to adequately address these deficiencies directly and substantially contributed to KRM's violations of QC § 20. As a result, Margetson violated PCAOB Rule 3502.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independence audit reports, the Board determined it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), KRM and Margetson are censured.
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of KRM is revoked.
- C. Pursuant to PCAOB Rule 2101, after one year from the date of this Order, KRM may reapply for registration.
- D. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), KRM is required
 1. before filing with the Board any future registration application, to (a) establish policies and procedures, or revise and/or supplement existing policies and procedures, for the purpose of providing KRM with reasonable assurance of compliance with applicable professional standards, regulatory requirements, and the Firm's standards of quality; (b) establish policies and procedures to provide reasonable assurance that KRM will only accept audit engagements, particularly those involving auditing of complex transactions, that it has the ability to conduct with professional competence and in accordance with professional standards; and (c) establish monitoring procedures that determine corrective actions to be taken and improvements to be made in KRM's quality control system.

2. within ninety days from the date the Board grants any future application of KRM for registration, to certify in writing to the Director of the Division of Enforcement and Investigations, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, KRM's compliance with paragraph IV.D.1 above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. KRM shall also submit such additional evidence of and information concerning compliance as the staff of the Division of Enforcement and Investigations may reasonably request.
- E. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Margetson is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).²⁰
- F. After one year from the date of this Order, Margetson may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm.
- G. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for one year following the termination of the bar ordered in paragraph IV.E above, Margetson's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Margetson shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's AS 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's AS 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to engagement partner or engagement quality reviewer, but differently denominated (such as "lead

²⁰ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Margetson. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

partner,” “practitioner-in-charge,” or “concurring partner”); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm’s name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; or (5) serve, or supervise the work of another person serving, as the “other auditor,” or “another auditor,” as those terms are used in the Board’s AS 1205, *Part of the Audit Performed by Other Independent Auditors*.

- H. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$30,000 is imposed jointly and severally upon KRM and Margetson.
1. All funds collected by the Board as a result of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.
 2. Respondents shall pay this civil money penalty within ten (10) days of the issuance of this Order by: (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier’s check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the entity or person as a respondent in these proceedings, sets forth the title and PCAOB release number of these proceedings, and states that payment is made pursuant to this Order, a copy of which cover letter and money order or check shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006.
 3. By consenting to this Order, KRM and Margetson acknowledge that their failure to pay the civil money penalty imposed upon them may alone be grounds to deny any application, pursuant to PCAOB Rule 2106, for registration with the Board.
 4. If timely payment is not made, interest shall accrue at the federal debt collection rate set for the current quarter pursuant to 31 U.S.C. § 3717. Payments shall be applied first to post-Order interest.
 5. With respect to any civil money penalty amounts that KRM and Margetson shall pay pursuant to this Order, KRM and Margetson shall not, directly or

indirectly, (a) seek or accept reimbursement or indemnification from any source including, but not limited to, any current or former affiliated firm or professional or any payment made pursuant to any insurance policy; (b) claim, assert, or apply for a tax deduction or tax credit in connection with any federal, state, local, or foreign tax; nor (c) seek or benefit by any offset or reduction of any award of compensatory damages, by the amount of any part of KRM and Margetson's payment of the civil money penalty pursuant to this Order, in any private action brought against KRM and Margetson based on substantially the same facts as set out in the findings in this Order.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 12, 2023