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## Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of De Visser Gray LLP,*

Respondent.

PCAOB Release No. 105-2024-034

June 18, 2024

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

- (1) censuring De Visser Gray LLP (“De Visser Gray,” “Firm,” or “Respondent”);
- (2) imposing a civil money penalty in the amount of \$60,000 on the Firm; and
- (3) requiring De Visser Gray to undertake certain remedial measures as described in Section IV of this Order.

The Board is imposing these sanctions on the basis of its findings that the Firm violated PCAOB rules and quality control standards by failing to take sufficient steps to ensure that its system of quality control provided reasonable assurance that the Firm and its personnel would comply with applicable professional standards and regulatory requirements.

### 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 against Respondent pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the “Act”), and PCAOB Rule 5200(a)(1).

### II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (the “Offer”) that the Board has

determined to accept. Solely for the purpose of these proceedings and any other proceeding 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 Respondent and the subject matter of these proceedings, which is admitted, Respondent consents to the entry of this Order as set forth below.<sup>1</sup>

### III.

On the basis of Respondent's Offer, the Board finds that:<sup>2</sup>

#### A. Respondent

1. **De Visser Gray LLP** is a public accounting firm located in Vancouver, British Columbia. It is licensed to practice public accounting by the Chartered Professional Accountants of British Columbia. At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

#### B. Summary

2. This matter concerns the Firm's failure to comply with PCAOB rules and quality control standards during the time period from April 2019 through January 2024. The Firm's system of quality control failed to provide reasonable assurance that the Firm and its personnel would: (a) comply with applicable PCAOB, as opposed to Canadian, professional standards and regulatory requirements; (b) perform sufficient procedures to determine whether certain matters were critical audit matters ("CAMs"), and accurately describe how CAMs that were identified in audit reports were addressed in the audit; (c) timely file Form APs; (d) make all required communications to issuer audit committees; and (e) comply with independence-related pre-approval requirements.

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer and are not binding on any other person or entity in this or any other proceeding.

<sup>2</sup> The Board finds that Respondent's 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.

### C. The Firm Violated PCAOB Rules and Quality Control Standards.

3. PCAOB rules require registered public accounting firms to comply with PCAOB quality control standards.<sup>3</sup> These standards require that a registered public accounting firm have a system of quality control for its accounting and auditing practice.<sup>4</sup> A 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.<sup>5</sup> A registered public accounting firm should establish quality control policies and procedures to provide reasonable assurance that the work performed by engagement personnel complies with applicable professional standards, regulatory requirements, and the firm's standards of quality.<sup>6</sup> Such policies and procedures should encompass all phases of the design and execution of the engagement.<sup>7</sup> In addition, to the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement.<sup>8</sup>

4. As described below, De Visser Gray failed to establish policies and procedures sufficient to provide reasonable assurance that its personnel complied with applicable professional standards and regulatory requirements.

**i. De Visser Gray's System of Quality Control Failed to Provide Reasonable Assurance that the Work Performed by Engagement Personnel Met Professional Standards and Regulatory Requirements.**

5. In 2019, PCAOB inspection staff conducted an inspection of the Firm. In connection with the inspection, PCAOB inspection staff informed the Firm of its findings regarding significant deficiencies in the Firm's system of quality control. In particular, PCAOB inspection staff noted that the Firm had obtained its audit methodology and audit practice materials from external service providers. It informed the Firm that the guidance used was only

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<sup>3</sup> See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3400T, *Interim Quality Control Standards*.

<sup>4</sup> See Quality Control Standard 20.01 ("QC § 20") at .01, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

<sup>5</sup> QC § 20.03.

<sup>6</sup> QC § 20.17.

<sup>7</sup> QC § 20.18.

<sup>8</sup> *Id.*

in accordance with Canadian Auditing Standards (“CAS”), rather than PCAOB auditing standards.

6. In 2022, PCAOB inspection staff conducted another inspection of the Firm. In connection with the inspection, PCAOB inspection staff informed the Firm of its findings regarding significant deficiencies in its system of quality control related once again to its use of an external service provider and its audit practice materials. Specifically, PCAOB inspection staff informed the Firm that certain of this guidance, including Professional Engagement Guide (“PEG”) audit programs, was only in accordance with CAS, rather than PCAOB auditing standards and rules. In addition, it noted that the Firm had not established policies and procedures to ensure that when engagement teams use the PEG audit programs on issuer audit work, they will address the requirements in PCAOB standards that were not addressed in the PEG audit programs. As a result, for certain audits, the Firm used audit methodology that failed to consider the requirements of PCAOB standards.

7. Despite being on notice of these deficiencies, the Firm continued to use the audit methodology and audit practice materials that were not compliant with PCAOB auditing standards and other regulatory requirements.

8. De Visser Gray therefore failed to establish policies and procedures sufficient to provide it with reasonable assurance that the work performed by the Firm and its engagement personnel complied with applicable professional standards and regulatory requirements, in violation of QC § 20.

**ii. De Visser Gray’s System of Quality Control Failed to Provide Reasonable Assurance with Respect to Critical Audit Matters.**

9. AS 3101, *The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, “establishes requirements regarding the content of the auditor’s written report when the auditor expresses an unqualified opinion on the financial statements . . . .”<sup>9</sup> Among other things, “[t]he auditor must determine whether there are any critical audit matters in the audit of the current period’s financial statements.”<sup>10</sup> A CAM is “any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or

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<sup>9</sup> AS 3101.01.

<sup>10</sup> AS 3101.11.

complex auditor judgment.”<sup>11</sup> For each CAM communicated in the auditor’s report, the auditor must: (a) identify the CAM; (b) describe the principal considerations that led the auditor to determine that the matter is a CAM; (c) describe how the CAM was addressed in the audit; and (d) refer to the relevant financial statement accounts or disclosures that related to the CAM.<sup>12</sup>

10. De Visser Gray’s system of quality control failed to provide reasonable assurance that its engagement teams properly evaluated potential CAMs. Specifically, the Firm failed to develop sufficient guidance to reasonably assure that engagement teams properly evaluated CAMs. For example, in certain audits, the Firm failed to perform procedures to determine whether matters were CAMs<sup>13</sup> and failed to accurately describe how certain matters, which were identified as CAMs, were addressed during the audit.<sup>14</sup>

11. These failures illustrate that De Visser Gray violated QC § 20 by failing to establish policies and procedures sufficient to provide the Firm with reasonable assurance that it would comply with AS 3101.

**iii. De Visser Gray’s System of Quality Control Failed to Provide Reasonable Assurance with Respect to the Reporting of Certain Audit Participants.**

12. PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants*, requires public accounting firms to report information about engagement partners and other accounting firms that participate in audits of issuers by filing a Form AP for each audit report issued by the firm for an issuer. Form APs must be filed by the 35<sup>th</sup> day after the date the audit report is first included in a document filed with the Commission,<sup>15</sup> subject to a shorter filing deadline that applies when the audit report is first included in a registration statement filed with the Commission under the Securities Act of 1933, as amended.<sup>16</sup>

13. During the relevant time period, De Visser Gray’s quality control policies and procedures failed to provide reasonable assurance that its personnel would comply with the requirements of PCAOB Rule 3211. During the 2019 inspection of the Firm, PCAOB inspection

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<sup>11</sup> *Id.*

<sup>12</sup> AS 3101.14.

<sup>13</sup> See AS 3101.11-.12.

<sup>14</sup> AS 3101.14c.

<sup>15</sup> PCAOB Rule 3211(b)(1).

<sup>16</sup> In that instance, a firm is required to file the Form AP by the tenth day after the date the audit report is first included in a document filed with the Commission. PCAOB Rule 3211(b)(2).

staff informed the Firm that it had not filed certain Form APs by the relevant deadline. Despite this notice, from November 2021 through January 2024, the Firm again failed to timely file Form APs for certain audit reports issued by the Firm in connection with issuer audits.

14. These failures illustrate that the Firm violated QC § 20 by failing to maintain effective policies and procedures to provide it with reasonable assurance that it would comply with the requirements of PCAOB Rule 3211.

**iv. De Visser Gray’s System of Quality Control Failed to Provide Reasonable Assurance with Respect to Audit Committee Communications.**

15. AS 1301, *Communications with Audit Committees*, requires the auditor to communicate with the issuer’s audit committee regarding certain matters concerning the audit.<sup>17</sup> Those matters include, among others, significant risks identified during the auditor’s risk assessment procedures<sup>18</sup> and the results of the audit, including, among others, all critical accounting policies and practices;<sup>19</sup> the auditor’s evaluation, where applicable, of the issuer’s ability to continue as a going concern;<sup>20</sup> and corrected misstatements, other than those that are clearly trivial, related to accounts and disclosures that might not have been detected except through the auditing procedures performed.<sup>21</sup> The auditor should also provide the audit committee with the schedule of uncorrected misstatements.<sup>22</sup>

16. Other required communications to audit committees include all significant deficiencies and material weaknesses in the issuer’s internal control over financial reporting that were identified during an audit of financial statements;<sup>23</sup> the auditor’s evaluation of the company’s identification of, accounting for, and disclosure of its relationships and transactions

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<sup>17</sup> AS 1301.01.

<sup>18</sup> See AS 1301.09-.11.

<sup>19</sup> AS 1301.12.b.

<sup>20</sup> AS 1301.17.

<sup>21</sup> AS 1301.19.

<sup>22</sup> AS 1301.18.

<sup>23</sup> AS 1305.04, *Communications About Control Deficiencies in an Audit of Financial Statements*.

with related parties;<sup>24</sup> and a copy of management's representation letter, which should be provided by the auditor if management had not already provided it.<sup>25</sup>

17. In addition, PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, requires the auditor, prior to accepting an engagement, to describe, in writing, to the audit committee all relationships between the registered public accounting firm or any affiliates of the firm and the potential audit client that, as of the date of the communication, may reasonably be thought to bear on independence, and to discuss with the audit committee the potential effects of those relationships on the independence of the firm.<sup>26</sup> Rule 3526 further provides, with respect to accepted audit clients, that the auditor must, among other things, at least annually affirm to the audit committee, in writing, that, as of the date of the communication, the firm is independent in compliance with Rule 3520.<sup>27</sup>

18. During the 2019 inspection, PCAOB inspection staff informed the Firm that it was not compliant with AS 1301 by failing to make certain required audit committee communications related to issuers' accounting policies and practices, estimates, and significant unusual transactions; the Firm's evaluation of the quality of issuers' financial reporting; and the Firm's evaluation of issuers' ability to continue as a going concern.

19. During the 2022 PCAOB inspection, the PCAOB inspectors again identified instances in which the Firm had failed to make all required audit committee communications despite being on notice of these deficiencies based on the 2019 inspection. Specifically, the Firm failed to make required communications regarding matters such as independence; significant risks; the results of the audit, including critical accounting policies and practices, critical accounting estimates, and the corrected and uncorrected misstatements related to accounts and disclosures; and the Firm's evaluation of the issuer's identification of, accounting for, and disclosure of its relationships and transactions with related parties. The Firm also failed to evaluate whether identified material misstatements resulted from control deficiencies and whether any such control deficiencies, individually or in combination, represented a material weakness or significant deficiency that required communication to management and the audit

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<sup>24</sup> AS 2410.19, *Related Parties*.

<sup>25</sup> AS 2805.05, *Management Representations*.

<sup>26</sup> Rule 3526(a)(1)-(2).

<sup>27</sup> Rule 3526(b)(3). Rule 3520 requires the auditor and its associated persons to be independent of the audit client throughout the audit and professional engagement period.

committee. In addition, the Firm failed to ensure that a copy of the management representation letter was provided to the audit committee.

20. These failures illustrate that the Firm violated QC § 20 by failing to establish policies and procedures sufficient to provide it with reasonable assurance that it would comply with AS 1301, AS 1305, AS 2410, AS 2805, and PCAOB Rule 3526.

**v. De Visser Gray’s System of Quality Control Failed to Provide Reasonable Assurance with Respect to Independence.**

21. PCAOB rules and standards require that a registered public accounting firm and its associated persons be independent of the firm’s audit client throughout the audit and professional engagement period.<sup>28</sup> That requirement includes an obligation to satisfy the independence criteria set out in the rules and standards of the PCAOB and all other independence criteria set out in the Commission’s rules and regulations under the federal securities laws.<sup>29</sup> One such criterion is set out in Rule 2-01(c)(7)(i) of Commission Regulation S-X (“Reg. S-X”), which provides that “[a]n accountant is not independent of an issuer” unless, “[b]efore the accountant is engaged by the issuer . . . to render audit or non-audit services, the engagement is approved by the issuer’s . . . audit committee.”<sup>30</sup>

22. PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*, further requires that, “[i]n connection with seeking audit committee pre-approval to perform for an issuer audit client any permissible tax service, a registered public accounting firm shall . . . describe, in writing, to the audit committee of the issuer,” among other things, “the scope of the service, the fee structure for the engagement, and any side letter or other amendment to the engagement letter, or any other agreement . . . between the firm and the audit client, relating to the service . . . .”<sup>31</sup>

23. During the relevant time period, De Visser Gray’s quality control policies and procedures failed to provide reasonable assurance that its personnel would abide by PCAOB and SEC independence requirements. Specifically, despite having been put on notice by a

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<sup>28</sup> See PCAOB Rule 3520, *Auditor Independence*.

<sup>29</sup> See PCAOB Rule 3520, Note 1; AS 1005.05-.06, *Independence*.

<sup>30</sup> 17 C.F.R. § 210.2-01(c)(7)(i)(A). The definition of accountant includes “any accounting firm with which the certified public accountant . . . is affiliated.” 17 C.F.R. § 210.2-01(f)(1).

<sup>31</sup> Rule 3524(a)(1).



similar finding by PCAOB inspection staff in 2019, the Firm failed to obtain audit committee pre-approval before providing tax services to an audit client in 2021.

24. This failure illustrates that De Visser Gray violated QC § 20 by failing to establish policies and procedures sufficient to provide it with reasonable assurance that it would comply with PCAOB Rule 3520, PCAOB Rule 3524, AS 1005, and Rule 2-01(c)(7)(i) of Reg. S-X.

#### 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 independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondent's Offer. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), De Visser Gray is hereby censured.
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$60,000 is imposed on De Visser Gray.
  1. All funds collected by the PCAOB as a result of the assessment of this civil money penalty will be used in accordance with Section 109(c)(2) of the Act.
  2. The Firm shall pay the civil money penalty within ten days of the issuance of this Order by (a) wire transfer in accordance with instructions furnished by PCAOB staff; or (b) United States Postal Service money order, bank money order, certified check, or bank cashier's check (i) made payable to the Public Company Accounting Oversight Board, (ii) delivered to the Office of Finance, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (iii) submitted under a cover letter, which identifies the Firm 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. If timely payment is not made, additional 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.

4. With respect to any civil money penalty amounts that Respondent shall pay pursuant to this Order, Respondent 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 Respondent's payment of the civil money penalty pursuant to this Order, in any private action brought against Respondent based on substantially the same facts as set out in the findings in this Order.
  5. Respondent understands that failure to pay the civil money penalty described above may result in summary suspension of Respondent's registration, pursuant to PCAOB Rule 5304(a), following written notice to Respondent at the address on file with the PCAOB at the time of the issuance of this Order.
- C. Pursuant to Section 105(c)(4)(G) of the Act and PCAOB Rule 5300(a)(9), De Visser Gray is required:
1. Within ninety (90) days from the date of this Order, to establish quality control policies and procedures, or revise and/or supplement existing quality control policies and procedures, for the purpose of providing the Firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the Firm's standards of quality in compliance with QC Section 20.17;
  2. Within ninety (90) days from the date of this Order, to establish a policy of ensuring training, whether internal or external, on an annual or more frequent regular basis, concerning applicable PCAOB rules and standards including critical audit matters, audit committee communications, PCAOB reporting requirements, and independence for all Firm personnel who participate in audit engagements; and
  3. Within 120 days of the entry of this Order, to provide a certification, signed by the Firm's managing partner, to the Director of the PCAOB's Division of Enforcement and Investigations, stating that the Firm has complied with sections IV.C.1 and C.2 above. The certification shall identify the actions undertaken to satisfy the conditions specified above (including any remedial

actions taken prior to the date of this Order), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. De Visser Gray shall also submit such additional evidence of, and information concerning, compliance as the staff of the Division of Enforcement and Investigations may reasonably request.

- D. The Firm understands that the failure to satisfy these conditions may constitute a violation of PCAOB Rule 5000 and could provide a basis for the imposition of additional sanctions in a subsequent disciplinary proceeding.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

June 18, 2024