2022 Inspection Harbourside CPA LLP

(Headquartered in Vancouver, Canada)

June 26, 2023

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

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PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2022 INSPECTION

In the 2022 inspection of Harbourside CPA LLP, the Public Company Accounting Oversight Board (PCAOB) assessed the firm's compliance with laws, rules, and professional standards applicable to the audits of public companies. Our inspection was conducted in cooperation with the Canadian Public Accountability Board.

We selected for review three audits of issuers with fiscal years ending in 2021. For each issuer audit selected, we reviewed a portion of the audit. We also evaluated elements of the firm's system of quality control.

2022 Inspection Approach

In selecting issuer audits for review, we use a risk-based method of selection. We make selections based on (1) our internal evaluation of audits we believe have a heightened risk of material misstatement, including those with challenging audit areas, and (2) other risk-based characteristics, including issuer and firm considerations. In certain situations, we may select all of the firm's issuer audits for review.

When we review an audit, we do not review every aspect of the audit. Rather, we generally focus our attention on audit areas we believe to be of greater complexity, areas of greater significance or with a heightened risk of material misstatement to the issuer's financial statements, and areas of recurring deficiencies. We may also select some audit areas for review in a manner designed to incorporate unpredictability.

Our selection of audits for review does not necessarily constitute a representative sample of the firm's total population of issuer audits. Additionally, our inspection findings are specific to the particular portions of the issuer audits reviewed. They are not an assessment of all of the firm's audit work or of all of the audit procedures performed for the audits reviewed.

View the details on the scope of our inspections and our inspections procedures.

OVERVIEW OF THE 2022 INSPECTION

The following information provides an overview of our 2022 inspection, which was our first inspection of this firm. We use a risk-based method to select audits for review and to identify areas on which we focus our review. Because our inspection process evolves over time, it can, and often does, focus on a different mix of audits and audit areas from inspection to inspection and firm to firm. Further, a firm's business, the applicable auditing standards, or other factors can change from the time of one inspection to the next. As a result of these variations, we caution that our inspection results are not necessarily comparable over time or among firms.

Firm Data and Audits Selected for Review

	2022
Firm data	
Total issuer audit clients in which the firm was the principal auditor	5
Total issuer audits in which the firm was not the principal auditor	0
Total engagement partners on issuer audit work[1]	2
Audits reviewed	
Total audits reviewed	3
Audits in which the firm was the principal auditor	3
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0
Audits with Part I.A deficiencies	3
Percentage of audits with Part I.A deficiencies	100%

If we include a deficiency in Part I.A of our report, it does not necessarily mean that the firm has not addressed the deficiency. In many cases, the firm has performed remedial actions after the deficiency was identified. Depending on the circumstances, remedial actions may include performing additional audit procedures, informing management of the issuer of the need for changes to the financial statements or reporting on ICFR, or taking steps to prevent reliance on prior audit reports.

[1] The number of engagement partners on issuer audit work represents the total number of firm personnel (not necessarily limited to personnel with an ownership interest) who had primary responsibility for an issuer audit (as defined in AS 1201, *Supervision of the Audit Engagement*) or for the firm's role in an issuer audit during the twelve-month period preceding the outset of the inspection.

Our inspection may include a review, on a sample basis, of the adequacy of a firm's remedial actions, either with respect to previously identified deficiencies or deficiencies identified during the current inspection. If a firm does not take appropriate actions to address deficiencies, we may criticize its system of quality control or pursue a disciplinary action.

If we include a deficiency in our report — other than those deficiencies for audits with incorrect opinions on the financial statements and/or ICFR — it does not necessarily mean that the issuer's financial statements are materially misstated or that undisclosed material weaknesses in ICFR exist. It is often not possible for us to reach a conclusion on those points based on our inspection procedures and related findings because, for example, we have only the information that the auditor retained and the issuer's public disclosures. We do not have direct access to the issuer's management, underlying books and records, and other information.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2022 inspection. For the issuer audits selected for review, we selected these areas because they were generally significant to the issuer's financial statements, may have included complex issues for auditors, and/or involved complex judgments in (1) estimating and auditing the reported value of related accounts and disclosures and (2) implementing and auditing the related controls.

2022	
Audit area	**Audits reviewed**
Cash and cash equivalents	2
Long-lived assets	2
Revenue and related accounts	1
Other assets	1
Certain assets	1

PART I: INSPECTION OBSERVATIONS

Part I.A of our report discusses deficiencies, if any, that were of such significance that we believe the firm, at the time it issued its audit report(s), had not obtained sufficient appropriate audit evidence to support its opinion(s) on the issuer's financial statements and/or ICFR.

Part I.B discusses certain deficiencies, if any, that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

Part I.C discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules, if any, related to maintaining independence.

Consistent with the Sarbanes-Oxley Act ("Act"), it is the Board's assessment that nothing in Part I of this report deals with a criticism of, or potential defect in, the firm's quality control system. We discuss any such criticisms or potential defects in Part II. Further, you should not infer from any Part I deficiency, or combination of deficiencies, that we identified a quality control finding in Part II. Section 104(g)(2) of the Act restricts us from publicly disclosing Part II deficiencies unless the firm does not address the criticisms or potential defects to the Board's satisfaction no later than 12 months after the issuance of this report.

Classification of Audits with Part I.A Deficiencies

Within Part I.A of this report, we classify each issuer audit in one of the categories discussed below based on the Part I.A deficiency or deficiencies identified in our review.

The purpose of this classification system is to group and present issuer audits by the number of Part I.A deficiencies we identified within the audit as well as to highlight audits with an incorrect opinion on the financial statements and/or ICFR.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

This classification includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's financial statements were determined to be materially misstated, and the issuer restated its financial statements. It also includes audits where a deficiency was identified in connection with our inspection and, as a result, an issuer's ICFR was determined to be ineffective, or there were additional material weaknesses that the firm did not identify, and the firm withdrew its opinion, or revised its report, on ICFR.

This classification does not include audits where, unrelated to our review, an issuer restated its financial statements and/or an issuer's ICFR was determined to be ineffective. We include any deficiencies identified in connection with our reviews of these audits in the audits with multiple deficiencies or audits with a single deficiency classification below.

Audits with Multiple Deficiencies

This classification includes audits where multiple deficiencies were identified that related to a combination of one or more financial statement accounts, disclosures, and/or important controls in an ICFR audit.

Audits with a Single Deficiency

This classification includes audits where a single deficiency was identified that related to a financial statement account or disclosure or to an important control in an ICFR audit.

PART I.A: AUDITS WITH UNSUPPORTED OPINIONS

This section of our report discusses the deficiencies identified, by specific issuer audit reviewed, in the audit work supporting the firm's opinion on the issuer's financial statements.

We identify each issuer by a letter (e.g., Issuer A). Each deficiency could relate to several auditing standards, but we reference the PCAOB standard that most directly relates to the requirement with which the firm did not comply.

We present issuer audits below within their respective deficiency classifications (as discussed previously). Within the classifications, we generally present the audits based on our assessment as to the relative significance of the identified deficiencies, taking into account the significance of the financial statement accounts and/or disclosures affected, and/or the nature or extent of the deficiencies.

Audits with an Incorrect Opinion on the Financial Statements and/or ICFR

None

Audits with Multiple Deficiencies

Issuer A

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue**, **Accounts Receivable**, and **Long-Lived Assets**.

Description of the deficiencies identified

With respect to **Revenue**, for which the firm identified a fraud risk:

The firm did not identify and evaluate a departure from GAAP related to the issuer's omission of disclosures required by FASB ASC Topic 280, *Segment Reporting,* related to revenue from certain customers. (AS 2810.30 and .31)

The issuer used an external party to assist in selling its products. In addition, the issuer's license to sell certain products expired during the year. The following deficiencies were identified:

- The firm did not identify, obtain, or evaluate the contractual arrangements between the issuer, its customers, and the external party. (AS 2301.08 and .13)

- The firm did not evaluate whether it was appropriate for the issuer to recognize revenue subsequent to the expiration of its related license. (AS 2301.08 and .13)

- The firm did not perform any procedures to test whether revenue was recognized at the appropriate amount. (AS 2301.08 and .13)

- The firm did not perform any procedures to test, or test any controls over, the accuracy and completeness of information produced by the issuer that the firm used in its substantive procedures. (AS 1105.10)

- The firm did not perform any substantive procedures to test whether delivery had occurred. (AS 2301.08 and .13)

- The firm did not evaluate the reliability of certain external information that it used in its substantive procedures. (AS 1105.04 and .06)

With respect to **Accounts Receivable**:

To test accounts receivable, the firm obtained evidence of subsequent cash receipts. The firm did not request the confirmation of accounts receivable or document how it overcame the presumption to perform confirmation procedures. (AS 2310.34 and .35) In addition, the firm did not evaluate the reliability of the evidence of subsequent cash receipts. (AS 1105.04 and .06)

With respect to **Long-Lived Assets**, for which the firm identified a significant risk:

The issuer engaged a specialist to develop an accounting estimate that was used to determine the valuation of certain long-lived assets. The following deficiencies were identified:

- The firm did not sufficiently evaluate a significant assumption developed by the issuer, because it did not take into account the issuer's ability to carry out an action related to the assumption. (AS 2501.16 and .17)

- The firm did not perform any procedures to evaluate whether the methods used by the company's specialist were appropriate under the circumstances, taking into account the requirements of the applicable financial reporting framework. (AS 1105.A8c)

- The firm did not perform any procedures to test, or test controls over, the accuracy and completeness of certain data produced by the issuer and used by the company's specialist. (AS 1105.A8a)

- The firm did not perform procedures to evaluate the relevance and reliability of external data that was used by the company's specialist. (AS 1105.A8a)

- The firm did not perform any procedures to evaluate certain other significant assumptions that were developed by the issuer. (AS 2501.16)

The firm did not perform any procedures, beyond obtaining a memorandum, to evaluate the issuer's conclusion that there were no impairment indicators related to certain other long-lived assets. (AS 2501.07)

Issuer B

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Cash** and **Long-Lived Assets.**

Description of the deficiencies identified

With respect to **Cash**:

The firm received a response to its cash confirmation request and included a scanned version of the response in the work papers. The firm did not maintain control over the confirmation response, because the firm did not know how the response was received. (AS 2310.28)

With respect to **Long-Lived Assets**:

The issuer capitalized expenditures related to the development of a long-lived asset. The firm did not perform substantive procedures, beyond inquiry, to determine whether the expenditures qualified for capitalization as a long-lived asset. (AS 2301.08)

Issuer C

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Certain Assets** and **Cash**.

Description of the deficiencies identified

With respect to **Certain Assets**, for which the firm identified a significant risk:

The issuer used a discounted cash flow analysis to test certain assets for impairment at year end. The firm's approach for substantively testing this analysis was to develop an independent expectation of the estimate, which included developing overall assumptions for revenue that included several underlying assumptions. The following deficiencies were identified:

- The firm did not perform sufficient procedures to demonstrate it had a reasonable basis for an underlying assumption it developed, because the firm obtained evidence that did not support the amount of the assumption. (AS 2501.22)

- The firm did not perform any procedures to demonstrate it had a reasonable basis for a second underlying assumption it developed. (AS 2501.22)

- The firm did not perform sufficient procedures to demonstrate it had a reasonable basis for a third underlying assumption it developed, because the firm limited its procedures to obtaining evidence that indicated its assumption may not have been accurate. (AS 2501.22)

- The firm did not perform procedures to evaluate the relevance of historical results of another company that it used to conclude that its overall assumptions for revenue were reasonable. (AS 1105.04 and .06)

In addition, the firm developed certain other assumptions that it used in its independent expectation. The firm did not perform sufficient procedures to demonstrate it had a reasonable basis for those assumptions because it used the historical results of another company to substantiate its assumptions without evaluating whether the historical results of the other company were relevant. (AS 1105.04 and .06; AS 2501.22)

With respect to **Cash**:

The firm received an electronic response to one of its cash confirmation requests. The firm did not consider performing procedures to address the risks associated with the electronic response, such as verifying the source and contents of the confirmation response. (AS 2310.29)

Audits with a Single Deficiency

None

PART I.B: OTHER INSTANCES OF NON-COMPLIANCE WITH PCAOB STANDARDS OR RULES

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules other than those where the firm had not obtained sufficient appropriate audit evidence to support its opinion(s). This section does not discuss instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

When we review an audit, we do not review every aspect of the audit. As a result, the areas below were not necessarily reviewed on every audit. In some cases, we assess the firm's compliance with specific PCAOB standards or rules on other audits that were not reviewed and include any instances of non-compliance below.

The deficiencies below are presented in numerical order based on the PCAOB standard or rule with which the firm did not comply. We identified the following deficiencies:

- In two of three audits reviewed, the firm added audit documentation subsequent to the 45-day period following the report release date and did not indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it. In these instances, the firm was non-compliant with AS 1215, *Audit Documentation.*

- In one of three audits reviewed, the assigned engagement quality reviewer had served as the engagement partner during the preceding audit. In this instance, the firm was non-compliant with AS 1220, *Engagement Quality Review*.

- In the three audits reviewed, the firm did not communicate to the issuer's audit committee all of the significant risks identified through its risk assessment procedures. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In two of three audits reviewed, the firm did not make a required communication to the issuer's audit committee related to the firm's evaluation of the issuer's ability to continue as a going concern. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of three audits reviewed, the firm did not provide to management and the audit committee the required communications in writing of all significant deficiencies identified during the audit. In this instance, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*.

- In the three audits reviewed, the firm, when testing journal entries for evidence of possible material misstatement due to fraud, did not have an appropriate rationale for limiting its testing of entries it identified as having certain fraud risk characteristics to certain entries. In these instances, the firm was non-compliant with AS 2401, *Consideration of Fraud in a Financial Statement Audit*.

- In two of three audits reviewed, the firm included in its audit report an explanatory paragraph describing substantial doubt about the issuer's ability to continue as a going concern, but did not place it immediately following the opinion paragraph. In these instances, the firm was non-compliant with AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*.

- In the three audits reviewed, the firm's audit report did not include the title "Report of Independent Registered Public Accounting Firm." In addition, in one of these audits, the firm's audit report did not include the title "Opinion on the Financial Statements." In these instances, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

- In one audit, the firm's audit report did not include the country from which the audit report had been issued. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*

- In one of two audits reviewed, the firm's audit report stated that there were no critical audit matters, but the firm did not perform procedures to determine whether or not matters that were communicated, or required to be communicated, to the audit committee and that related to accounts or disclosures that are material to the financial statements, were critical audit matters. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that critical audit matters should have been communicated in the auditor's report.

- In one of two audits reviewed, the engagement team performed procedures to determine whether or not matters were critical audit matters but, in performing those procedures, did not include certain matters that were communicated, or required to be communicated, to the issuer's audit committee and that related to accounts or disclosures that were material to the financial statements. In this instance, the firm was non-compliant with AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. This instance of non-compliance does not necessarily mean that other critical audit matters should have been communicated in the auditor's report.

- In one of three audits reviewed, the firm's audit report did not include explanatory language about the firm's responsibilities with respect to ICFR in a non-integrated audit. In this instance, the firm was non-compliant with AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances*.

- In two audits, the firm did not file its report on Form AP by the relevant deadline. In these instances, the firm was non-compliant with PCAOB Rule 3211, *Auditor Reporting of Certain Audit Participants.*

PART I.C: INDEPENDENCE

This section of our report discusses instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence. An instance of potential non-compliance with SEC rules or an instance of non-compliance with PCAOB rules does not necessarily mean that the Board has concluded the firm was not objective and impartial throughout the audit and professional engagement period. Although this section includes an instance of potential non-compliance that we identified, there may be other instances of non-compliance with SEC or PCAOB rules related to independence that were not identified through our procedures or the firm's monitoring activities.

PCAOB-Identified

We identified the following instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence:

Under Rule 2-01(c)(4) of Regulation S-X, the performance of services related to bookkeeping or other services related to the accounting records or financial statements of the audit client impairs an accountant's independence with respect to an audit client. We identified one instance for one issuer in one audit reviewed in which this circumstance appears to have occurred.

Firm-Identified

The firm did not bring to our attention any instances of potential non-compliance with SEC rules or instances of non-compliance with PCAOB rules related to maintaining independence.

While the firm did not bring to our attention any instances of potential non-compliance, the number, large or small, of firm-identified instances of potential non-compliance may be reflective of the size of the firm, including the number of associated firms; the design and effectiveness of the firm's independence monitoring activities; and the size and/or complexity of the issuers it audits, including the number of affiliates of those issuers. Therefore, we caution against making any comparison of firm-identified instances of potential non-compliance across firms.

PART II: OBSERVATIONS RELATED TO QUALITY CONTROL

Part II of our report discusses criticisms of, and potential defects in, the firm's system of quality control.

We include deficiencies in Part II if an analysis of the inspection results, including the results of the reviews of individual audits, indicates that the firm's system of quality control does not provide reasonable assurance that firm personnel will comply with applicable professional standards and requirements. Generally, the report's description of quality control criticisms is based on observations from our inspection procedures.

This report does not reflect changes or improvements to the firm's system of quality control that the firm may have made subsequent to the period covered by our inspection. The Board does consider such changes or improvements in assessing whether the firm has satisfactorily addressed the quality control criticisms or defects no later than 12 months after the issuance of this report.

When we issue our reports, we do not make public criticisms of, and potential defects in, the firm's system of quality control, to the extent any are identified. If a firm does not address to the Board's satisfaction any criticism of, or potential defect in, the firm's system of quality control within 12 months after the issuance of our report, we will make public any such deficiency.

APPENDIX A: FIRM'S RESPONSE TO THE DRAFT INSPECTION REPORT

Pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the firm an opportunity to review and comment on a draft of this report. The firm did not provide a written response.