2022 Inspection
Crowe MacKay LLP

(Headquartered in Vancouver, Canada)

September 28, 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

PCAOB RELEASE NO. 104-2023-170

PCAOB
PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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2022 INSPECTION

In the 2022 inspection of Crowe MacKay 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 AND HISTORICAL DATA BY INSPECTION YEAR

The following information provides an overview of our 2022 inspection as well as data from the previous inspection. 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	2019
Firm data		
Total issuer audit clients in which the firm was the principal auditor	3	1
Total issuer audits in which the firm was not the principal auditor	0	0
Total engagement partners on issuer audit work[1]	3	1
Audits reviewed		
Total audits reviewed	3	1
Audits in which the firm was the principal auditor	3	1
Integrated audits of financial statements and internal control over financial reporting (ICFR)	0	0
Audits with Part I.A deficiencies	3	0
Percentage of audits with Part I.A deficiencies	100%	0%

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

[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.

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.

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.

In connection with our 2022 inspection procedures for one audit, the issuer corrected misstatements in a subsequent filing by adjusting the prior-period financial statements and revising disclosures.

Audit Areas Most Frequently Reviewed

This table reflects the audit areas we have selected most frequently for review in the 2022 inspection and the previous 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		2019	
Audit area	**Audits reviewed**	**Audit area**	**Audits reviewed**
Cash and cash equivalents	3	**Long-lived assets**	1
Revenue and related accounts	2	**Accruals and other liabilities**	1
Inventory	1	**Equity and equity-related transactions**	1
Investment securities	1		
Long-lived 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, or Canadian Auditing Standards (CAS),[2] 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.

[2] Audits for an issuer that filed required reports with the SEC under their multijurisdictional disclosure system are conducted in accordance with Canadian Auditing Standards.

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) and industry sector. 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 – Industrials

Type of audit and related areas affected

In our review, we identified deficiencies in the financial statement audit related to **Revenue and Related Accounts** and **Inventory**.

Description of the deficiencies identified

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

The issuer recognized revenue from finance leases. The firm did not identify and evaluate a departure from IFRS related to the issuer's exclusion of the present value of the exercise price of purchase options in determining the lease payments as required by IFRS 16, *Leases*. (AS 2810.30)

In connection with our review, the issuer reevaluated its accounting for revenue from finance leases and determined a misstatement existed that had not been previously identified. The issuer did not file an amended Form 20-F or Form 6-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected this misstatement in a subsequent filing by revising the prior-period financial statements.

The firm did not identify and evaluate a departure from IFRS related to the issuer's incorrect disclosure that all proceeds from government grants were included in vehicle sales revenue, when certain of those proceeds were included in finance lease revenue. (AS 2810.30 and .31) In addition, the firm did not perform procedures to evaluate the disclosures of vouchers from government programs as "government grants" that may have suggested that the "grants" were for the economic benefit of the issuer and that IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, was applicable. (AS 2301.08)

In connection with our review, the issuer reevaluated its disclosures regarding government grants and determined that misstatements existed in disclosures that had not been previously identified. The issuer did not file an amended Form 20-F or Form 6-K indicating that its previously issued financial statements should not be relied on. Instead, the issuer corrected these misstatements in a subsequent filing by revising the disclosures.

The following additional deficiencies were identified related to revenue and receivables from finance leases:

- The firm did not perform sufficient procedures to test revenue recognized based on vouchers from government programs because it did not obtain evidence that these vouchers were approved by the government or received by the issuer. (AS 2301.08 and .13)

- The firm did not perform procedures to test the market interest rate used to determine the present value of lease payments, beyond comparing it to the rate used by the issuer in the prior year. (AS 2301.08 and .13)

- The firm did not perform procedures to test the installation dates for certain of the leases entered into during the year. (AS 2301.08 and .13)

In its testing of vehicle sales revenue, the firm obtained evidence that certain vehicles may not have been delivered until after year end. The firm did not evaluate this evidence beyond concluding that it was shortly after year end. (AS 2301.08 and .13; AS 2810.03)

With respect to **Inventory:**

To substantively test inventory, the firm rolled forward the inventory balance from prior year and performed procedures to test the activity during the year, including confirming purchases of inventory. The firm received an electronic response to one of its confirmation requests related to the purchase of inventory that was received from a different email address than the contact email address included in the issuer's contracts with the vendor. The firm did not consider performing procedures to verify the source of the response. (AS 2310.29) In addition, the firm did not test the accuracy of the cost of certain inventory that was sold during the year. (AS 2301.08)

Outside custodians held certain of the issuer's inventory. The firm did not perform sufficient procedures to test the existence of this inventory because it limited its procedures to the roll forward described above and positive confirmation requests with the outside custodians. Further, the firm did not perform procedures to compare the quantities of inventory included in the confirmation responses to the quantities in the issuer's records. (AS 2301.08; AS 2510.14)

The firm did not perform sufficient procedures to test whether one type of inventory was stated at the lower of cost or net realizable value, because the firm did not consider estimated costs of completion and estimated costs necessary to make the sale. (AS 2301.08) In addition, for a second type of inventory, the firm did not perform procedures to test whether the inventory was stated at the lower of cost or net realizable value beyond concluding that although the inventory had not yet been sold, it expected the sales price to be higher than similar inventory given it was physically bigger. (AS 2301.08)

With respect to a third type of inventory, in testing whether the inventory was stated at the lower of cost or net realizable value, the firm did not (1) test the accuracy of the cost of the inventory, beyond comparing it to the amounts relieved from inventory as part of its roll forward procedures described above, (2) evaluate the effect of differences in asset types, beyond consideration of physical size, on the selling prices used in its analysis, and (3) evaluate the ongoing availability of vouchers from government programs in its determination of the selling prices used in its analysis. (AS 2301.08)

Audits with a Single Deficiency

Issuer B – Health Care

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Revenue**, for which the firm identified a fraud risk.

Description of the deficiency identified

The issuer recognized certain revenue on the percentage-of-completion basis. To test this revenue, the firm selected a sample of open projects. For the selected open projects, the firm did not perform procedures, beyond obtaining issuer-produced documentation, to test the transaction price at contract inception. (CAS 330.6)

Issuer C – Materials

Type of audit and related area affected

In our review, we identified a deficiency in the financial statement audit related to **Investment Securities**.

Description of the deficiency identified

The firm's approach for substantively testing the fair value of investment securities was to test the issuer's process. The firm used a pricing tool it developed to recalculate the fair value of certain investment securities. The firm did not test the functionality of this pricing tool. (AS 2501.10)

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

This section of our report discusses certain deficiencies that relate to instances of non-compliance with PCAOB standards or rules, or CAS, 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, or CAS, with which the firm did not comply. We identified the following deficiencies:

- In one of two audits reviewed, the firm did not make certain required communications to the issuer's audit committee related to (1) corrected misstatements; (2) the issuer's critical accounting policies and practices; and (3) management bias it identified related to an estimate. In these instances, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of two audits reviewed, the firm did not provide the issuer's audit committee a draft of the firm's audit report. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of two audits reviewed, the firm did not establish an understanding of the terms of the audit engagement with the audit committee, record such understanding in an engagement letter, and determine that the audit committee acknowledged and agreed to the terms of the engagement. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*.

- In one of two audits reviewed, the firm did not provide a copy of the management representation letter to the issuer's audit committee. In this instance, the firm was non-compliant with AS 1301, *Communications with Audit Committees*, and AS 2805, *Management Representations*.

- In one audit reviewed, the firm did not 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 issuer's audit committee. In addition, in this audit, the firm communicated in writing to the audit committee that there were no significant deficiencies identified during the audit. In these instances, the firm was non-compliant with AS 1305, *Communications About Control Deficiencies in an Audit of the Financial Statements*.

- In one of two audits reviewed, the firm did not make a required communication to management related to misstatements it identified. In these instances, the firm was non-compliant with AS 2810, *Evaluating Audit Results*.

- In one audit reviewed, the firm's audit report did not state that the audit was conducted in accordance with Canadian generally accepted auditing standards. In this instance, the firm was non-compliant with CAS 700, *Forming an Opinion and Reporting on Financial Statements*.

- In one of three audits reviewed, the firm did not file its report on Form AP by the relevant deadline. In this instance, 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 instances 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)(7) of Regulation S-X, an accountant is not independent if it does not obtain audit committee pre-approval for audit and non-audit services. We identified four instances across two issuers in three audits reviewed in which this circumstance appears to have occurred related to certain audit and permissible tax services.

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 firm provided a written response to a draft of this report. Pursuant to Section 104(f) of the Act and PCAOB Rule 4007(b), the firm's response, excluding any portion granted confidential treatment, is attached hereto and made part of this final inspection report.

The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available.

In addition, pursuant to Section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

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July 31, 2023

Mr. George Botic, Director
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RE: Response to Part I of the Draft Report on the 2022 Inspection of Crowe MacKay LLP

Dear Mr. Botic

We are pleased to provide our response to the Public Company Accounting Oversight Board's ("PCAOB") Draft Report on the 2022 Inspection of Crowe MacKay LLP principally related to the 2021 audits of our Firm (the "Draft Report").

Crowe MacKay LLP is committed to the highest standards of quality and we review and evaluate each matter described in the Draft Report and address the matters in our continuous efforts to improve and strengthen our quality management system and processes and audit performance.

We carefully evaluated the matters described in Part I of the Draft Report and have taken appropriate actions to address the matters to comply with AS2901, *Consideration of Omitted Procedures After the Audit Report Date*, CSQC 1, *Canadian Standard on Quality Control,* and where applicable AS2905, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Respectfully submitted,

"Crowe MacKay LLP"

Crowe MacKay LLP