UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 82859 / March 13, 2018

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3926 / March 13, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18399

In the Matter of **BDO CANADA LLP** **(f/k/a BDO DUNWOODY LLP)** **Respondent.**	**ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 4C AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER, A CENSURE AND A CIVIL PENALTY**

I.

The Securities and Exchange Commission ("Commission" or "SEC") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against BDO Canada LLP (f/k/a BDO Dunwoody LLP) ("Respondent" or "BDO Canada") pursuant to Sections 4C[1] and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule

[1] Section 4C provides, in relevant part, that:

> The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct . . . .

102(e)(1)(ii) of the Commission's Rules of Practice.[2]

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, Making Findings, and Imposing A Cease-and-Desist Order, a Censure and a Civil Penalty ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

A. SUMMARY

These proceedings arise out of BDO Canada's improper professional conduct in the course of its audits of Issuer A. In particular, from at least 2006 until 2012, during its audits of Issuer A, BDO Canada failed to comply with the auditing standards of the Public Company Accounting Oversight Board ("PCAOB").

B. RESPONDENT

BDO Canada LLP ("BDO Canada") is a public accounting firm registered with the PCAOB and located in Toronto, Canada. BDO Canada is a member firm of BDO International Limited, a private company in the United Kingdom. Prior to January 2010, BDO Canada was named BDO Dunwoody LLP.

C. OTHER RELEVANT ENTITIES

Issuer A is a company that is incorporated in Canada with its principal executive offices in

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[2] Rule 102(e)(1)(ii) provides, in pertinent part, that:

> The Commission may . . . deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

South Africa. Issuer A's securities are registered with the Commission pursuant to Section 12(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and were previously registered with the Commission pursuant to Section 12(g) of the Exchange Act. Issuer A files periodic reports, including Form 20-F, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

Deloitte & Touche Chartered Accountants ("Deloitte Zimbabwe") is an accounting firm located in Zimbabwe and is a member firm of a global accounting network. Deloitte Zimbabwe is not registered with the PCAOB.

D. FACTS

From at least 2006 until 2012, BDO Canada audited the financial statements of Issuer A, a Canadian company with securities registered with the Commission pursuant to Section 12(g) of the Exchange Act. As such, Issuer A is required to file periodic reports with the Commission and the financial statements contained in those reports are required to be audited pursuant to PCAOB standards.

In each independent auditor's report of BDO Canada included with Issuer A's financial statements filed with the Commission on Form 20-F for fiscal years 2006 through 2012, BDO Canada inaccurately stated that it had conducted its audits in accordance with the standards of the PCAOB. Specifically, BDO Canada's use of the work of another independent auditor failed to comply with PCAOB auditing standards.

Applicable Auditing Standards[3]

PCAOB AU Sec. 543, *Part of Audit Performed by Other Independent Auditors*, establishes requirements that apply when an auditor of an issuer's financial statements "use[s] the work and reports of other independent auditors who have audited the financial statements of one or more subsidiaries, divisions, branches, components, or investments included in [that issuer's] financial statements." *See* AU 543.01.

In circumstances where a significant part of the audit is performed by another auditor, a firm, in considering whether it can serve as principal auditor, must decide whether its own participation in the audit is sufficient and enables it to serve as the principal auditor and to report as such on the financial statements. *See* AU 543.02.

In determining whether its participation is sufficient to serve as a principal auditor, the auditor "should consider, among other things, the materiality of the portion of the financial statements [the firm] audited in comparison with the portion audited by other auditors, the extent of

[3] The references to PCAOB standards and applicable provisions of the U.S. securities laws are to those that were in effect at the time of the relevant conduct.

[the auditor's] knowledge of the overall financial statements, and the importance of the components [the firm] audited in relation to the enterprise as a whole." *See* AU 543.02.

As part of deciding whether it can use the work and report of another auditor, the principal auditor "should make inquiries concerning the professional reputation and independence of the other auditor." *See* AU 543.10. In addition, the principal auditor "should adopt appropriate measures to assure the coordination of his activities with those of the other auditor in order to achieve a proper review of the matters affecting the consolidating or combining of accounts in the financial statements." *See* AU 543.10.

In addition, PCAOB AU Sec. 230, *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." *See* AU 230.01.

BDO Canada's Role as Issuer A's Principal Auditor and its Improper Professional Conduct

During the relevant period, BDO Canada served as the principal auditor of Issuer A. In that capacity, BDO Canada signed and issued the audit reports on Issuer A's financial statements. During this same period, Issuer A's largest subsidiary, located in Africa, accounted for the majority of Issuer A's consolidated assets and revenues. For example, for fiscal year 2011, this specific African subsidiary accounted for approximately 64 and 100 percent of Issuer A's consolidated total assets and revenues, respectively. In conducting its audits of Issuer A, BDO Canada used a local audit firm, Deloitte Zimbabwe, to audit the financial statements of this subsidiary.

BDO Canada failed to comply with AU 543 in its use of the work of Deloitte Zimbabwe. At the outset, BDO Canada provided Deloitte Zimbabwe with instructions for performing the audit. Significantly, BDO Canada directed Deloitte Zimbabwe to perform its audits in accordance with International Standards on Auditing ("ISAs"). Deloitte Zimbabwe's report of its audit provided to BDO Canada made clear that its audit was conducted in accordance with ISAs and not PCAOB standards. BDO Canada failed to perform procedures to evaluate the potential impact of Deloitte Zimbabwe having applied ISAs or to determine whether the audit work performed was compliant with PCAOB standards until 2012.

In addition, BDO Canada failed to perform any analysis under AU 543 to determine whether it could serve as Issuer A's principal auditor and use the work of Deloitte Zimbabwe. Again, BDO Canada mistook what auditing standards were applicable and considered the issue under Canadian Auditing Standards. In addition, a factor in deciding to use Deloitte Zimbabwe was the preference of management of Issuer A to have Deloitte Zimbabwe do the audit work, a reason with no basis under AU 543.

The U.S. securities laws and the PCAOB rules require that accounting firms register with the PCAOB if they "prepare[] or issue[] any audit report with respect to any issuer" or "play[] a substantial role in the preparation or furnishing of an audit report with respect to any issuer." *See* Section 102 of the Sarbanes-Oxley Act of 2002 and PCAOB Rule 2100. An accounting firm plays

a substantial role and is thus required to register when it: (1) "perform[s] material services that a public accounting firm uses or relies on in issuing all or part of its audit report;" or (2) "perform[s] the majority of the audit procedures with respect to a subsidiary or component of any issuer the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal auditor to issue an audit report." *See* PCAOB Rule 1001(p)(ii).

Deloitte Zimbabwe played a substantial role in the preparation of the audit reports for Issuer A having audited most of Issuer A's assets and substantially all of its revenues. As such, Deloitte Zimbabwe was required to be registered with the PCAOB. However, Deloitte Zimbabwe failed to register with the PCAOB. Among BDO Canada's responsibilities under AU 543 was to inquire concerning the professional reputation and independence of Deloitte Zimbabwe and under AU 230.01 to plan and perform its work with due professional care. *See* AU 543.10; AU 230.01. From 2006 to 2012, BDO Canada simply assumed that Deloitte Zimbabwe was registered with the PCAOB. An adequate inquiry performed with due professional care under AU 543 and AU 230 concerning Deloitte Zimbabwe's professional reputation, based in part, on the significance of the assets and revenues audited by Deloitte Zimbabwe, would have revealed that Deloitte Zimbabwe was not registered with the PCAOB. As a result, BDO Canada should not have used Deloitte Zimbabwe's audit work. However, for a period of six years, BDO used the audit work of Deloitte Zimbabwe and during that period failed to identify the fact that Deloitte Zimbabwe was not registered with the PCAOB.

E. BDO CANADA'S REMEDIAL EFFORTS

In determining to accept the Offer, the Commission considered BDO Canada's cooperation and remedial measures.

F. VIOLATIONS

BDO Canada engaged in improper professional conduct under Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice by failing (1) to instruct Deloitte Zimbabwe to perform its audit in accordance with PCAOB standards or to perform procedures to evaluate the impact of Deloitte Zimbabwe having applied ISAs including determining whether or not the audit work performed was compliant with PCAOB standards; and (2) to comply with AU 543 and AU 230 in using the audit work of an unregistered auditing firm; and (3) to perform an analysis under AU 543 regarding the sufficiency of its participation to serve as principal auditor.

Rule 2-02(b)(1) of Regulation S-X of the Exchange Act requires an auditor's report to state whether the audit was made in accordance with generally accepted auditing standards. By indicating that its audit was conducted in accordance with PCAOB standards, when in fact it had not been, BDO Canada violated Rule 2-02(b)(1) of Regulation S-X.

Section 13(a) of the Exchange Act and Rule 13a-1 thereunder require every foreign private issuer of a security registered pursuant to Section 12 of the Exchange Act to file with the

Commission such information, documents and reports as the Commission may require. Implicit in this requirement is that the reports be accurate. By indicating in its audit report accompanying Issuer A's financial statements that its audit was conducted in accordance with PCAOB standards, when in fact, it had not been, BDO Canada caused Issuer A to violate Section 13(a) of the Exchange Act and Rule 13a-1.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent BDO Canada's Offer.

Accordingly, it is hereby ORDERED that:

A. BDO Canada is censured;

B. BDO Canada shall cease and desist from committing or causing any violations and any future violations of Rule 2-02 of Regulation S-X and causing any violations and any future violations of Section 13(a) of the Exchange Act and Rule 13a-1; and

C. BDO Canada shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of $50,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying BDO Canada as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Amy L. Friedman, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

E. Respondent acknowledges that the Commission is not imposing a civil penalty in excess of $50,000 based upon its cooperation in a Commission investigation. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission, or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay an additional civil penalty. Respondent may contest by way of defense in any resulting administrative proceeding whether it knowingly provided materially false or misleading information, but may not: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Brent J. Fields
Secretary