



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

22nd Floor
20 Queen Street West
Toronto ON M5H 3S8

22e étage
20, rue queen ouest
Toronto ON M5H 3S8

Citation: BDO Canada LLP (Re), 2020 ONSEC 4
Date: 2020-01-31
File No. 2018-59

**IN THE MATTER OF
BDO CANADA LLP**

**ORAL REASONS FOR APPROVAL OF SETTLEMENT
(Sections 127 and 127.1 of the *Securities Act*, RSO 1990, c S.5)**

Hearing: January 24, 2020

Decision: January 24, 2020

Panel: D. Grant Vingoe Vice-Chair and Chair of the Panel
Lawrence P. Haber Commissioner
Mary Anne De Monte-Whelan Commissioner

Appearances: Anna Huculak For Staff of the Commission
Robert Gain

Doug McLeod For BDO Canada LLP
Melissa Feriozzo

REASONS AND DECISION

The following reasons have been prepared for publication in the Ontario Securities Commission Bulletin, based on the transcript of the reasons delivered orally in the hearing, and as edited and approved by the panel, to provide a public record of the oral reasons.

- [1] Staff of the Ontario Securities Commission (**Staff**) and BDO Canada LLP (**BDO**) have jointly submitted that it would be in the public interest to approve a joint settlement between the parties dated January 20, 2020 (the **Settlement Agreement**). The Settlement Agreement pertains to allegations described in an Amended Statement of Allegations against BDO, dated September 16, 2019, relating to its audits of Crystal Wealth Media Strategy and Crystal Mortgage Strategy, which were each managed by Crystal Wealth Management Systems Limited (the **Funds**), for the years ending December 31, 2014 and December 31, 2015.
- [2] Facts and circumstances around BDO's conduct are contained in the Settlement Agreement, which will be publicly available. Staff's allegations and the admissions are restricted to compliance with auditing standards and do not involve allegations of breaches of accounting standards by BDO, or any other person.
- [3] In each of the auditor's reports accompanying the financial statements for the years ending 2014 and 2015, BDO stated that it had performed its audits in accordance with generally accepted auditing standards (**GAAS**). The parties have agreed that BDO did not meet GAAS in the conduct of its audits of the Funds in three principal ways:
 1. BDO did not obtain sufficient, appropriate audit evidence to reduce, to an acceptably low level, the risk of incorrectly opining on misstated financial statements;
 2. BDO did not undertake its work with sufficient professional skepticism; and
 3. before issuing its audit opinions, BDO did not complete the engagement quality control reviews of the audits that it had determined were required.
- [4] The parties agree that each of BDO's statements in the auditor's reports that the relevant audit had been conducted in accordance with GAAS was contrary to subsection 122(1)(b) of the Act. In addition, each of BDO's failures to comply with GAAS constituted a breach of subsection 78(3) of the Act. This conduct was contrary to the public interest.
- [5] BDO consents to the making of an order substantially in the form attached as Schedule A to the Settlement Agreement, which contemplates that:
 - a. the Settlement Agreement is approved;

- b. BDO be reprimanded;
 - c. BDO pay an administrative penalty in the amount of \$3.5 million, which amount be designated for allocation or use by the Commission in accordance with subsection 3.4(2)(b) of the Act; and
 - d. BDO pay costs in the amount of \$500,000.
- [6] In addition to the submissions that we have heard today, the Panel had the opportunity to meet with the parties in a confidential settlement conference and to review the proposed settlement agreement and Amended Statement of Allegations.
- [7] The Settlement Agreement is the result of extensive negotiations between Staff and BDO, and the Commission affords significant deference to negotiated agreements reached by the parties. The Panel's obligation at a settlement hearing is to determine whether the settlement agreed to by the parties falls within a reasonable range of outcomes and whether it would be in the public interest to approve the settlement.
- [8] The Panel finds that it is in the public interest to approve the Settlement Agreement between Staff and BDO.
- [9] In determining that it is in the public interest to approve the Settlement Agreement, we considered the following factors to be particularly relevant:
- a. Staff do not allege dishonest conduct or intentional misconduct by BDO;
 - b. in addition to BDO's continuous efforts to improve its audit policies and procedures, BDO has taken a number of steps to ensure adherence to these policies and procedures that address conduct such as that admitted to in this Proceeding consisting of additional mandated internal discussions and consultations, reviews and training, particularly involving (i) funds and other entities raising capital from accredited investors, (ii) valuation matters where significant accounting estimates have been identified, (iii) the involvement of outside service organizations whose services are part of the audited entity's financial reporting information systems and (iv) additional reviews by independent technical experts for certain engagements; and
 - c. BDO has accepted responsibility for its actions through detailed admissions without the need for further proceedings.
- [10] We will issue an order substantially in the form of the order in Schedule "A" to the Settlement Agreement.
- [11] Lastly, the Settlement Agreement includes a reprimand of BDO. The Panel would like to acknowledge the presence of Mr. Jeffrey Smith, National Risk Management Partner at BDO, which allows the Panel to convey to BDO and Mr. Smith the importance of these matters. Through Mr. Smith, BDO is hereby

reprimanded. We also acknowledge the presence here today of Nazia Lakhani, another senior officer of BDO.

Dated at Toronto this 24th day of January, 2020.

"D. Grant Vingoe"

D. Grant Vingoe

"Lawrence P. Haber"

Lawrence P. Haber

"Mary Anne De Monte-Whelan"

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