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**ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS**

In the Matter of Morgan & Company LLP,

Respondent.

PCAOB Release No. 105-2021-002

March 30, 2021

By this Order, the Public Company Accounting Oversight Board (“Board” or PCAOB) is imposing sanctions upon Morgan & Company LLP (“Morgan,” the “Firm,” or “Respondent”). The Board is:

- (1) censuring the Firm, a registered public accounting firm; and
- (2) imposing a \$25,000 civil money penalty on the Firm.

The Board is imposing these sanctions on the basis of its findings that Morgan violated PCAOB rules and standards in connection with the audits of an issuer.

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

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondent has submitted an Offer of Settlement (“Offer”) that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings 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 Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”) as set forth below.¹

III.

On the basis of Respondent’s Offer, the Board finds that:

A. Respondent

1. **Morgan & Company LLP**² is a limited liability partnership organized under the laws of British Columbia, Canada, and headquartered in Vancouver, Canada. The Firm was, until its practice merger on August 1, 2020, licensed by the Institute of Chartered Accountants of British Columbia (Lic. No. 664381). At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

B. Other Relevant Entity

2. **Firm B** is a partnership organized under the laws of Mexico and headquartered in Mexico City, Mexico. At all relevant times, the firm was a “public accounting firm” within the meaning of Section 2(a)(11) of the Act and PCAOB Rule 1001(p)(iii).

C. Issuer

3. “Issuer A” was, at all relevant times, a Canadian corporation. Issuer A’s public filings disclose that, at all relevant times, it was a mineral company engaged in the business of acquiring and exploring mineral properties. Its common stock was registered, at all relevant times, under Section 12(g) of the Securities Exchange Act of 1934 (“Exchange Act”). Issuer A was required to file periodic reports with the Securities and Exchange Commission (“Commission”), and the financial statements contained in those reports were required to be audited pursuant to PCAOB standards. Issuer A was, at all relevant times, an issuer as that term is defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

¹ The findings herein are made pursuant to the Respondent’s Offer and are not binding on any other person or entity in this or any other proceeding.

² Effective August 1, 2020, the Firm merged its practice with Canadian PCAOB registrant Smythe LLP and also submitted a Form 1-WD to withdraw from PCAOB registration on that date. The Firm’s withdrawal request is pending.

D. Summary

4. This matter concerns Morgan’s violations of PCAOB rules and standards in connection with its audits of Issuer A.

5. During three consecutive audits of the consolidated financial statements of Issuer A for fiscal years ended August 31, 2015, 2016 and 2017, respectively (the “FY 2015 – FY 2017 Audits”), Morgan issued audit reports on Issuer A’s financial statements as Issuer A’s principal auditor. During this period, Morgan used the work of a Mexican public accounting firm not registered with the PCAOB (“Firm B”) in opining on Issuer A’s financial statements.

6. Firm B audited over 90% of Issuer A’s assets and performed services that Morgan used or relied on in issuing its audit reports. Morgan knew from inquiries to Firm B that it was not PCAOB-registered. However, during the FY 2015 – FY 2017 Audits, Morgan failed to perform an adequate analysis regarding whether it could serve as Issuer A’s principal auditor and use the work of Firm B.

7. During each audit, Morgan also failed to appropriately coordinate its activities with Firm B. Morgan asked Firm B to perform specified procedures to support its opinions, and instructed Firm B to perform the procedures in accordance with Canadian Auditing Standards (CAS), not PCAOB standards. Firm B personnel were not trained in CAS or PCAOB standards, and, in fact, performed its procedures in accordance with Mexican Auditing Standards (MAS). Morgan was not aware that Firm B applied MAS, and failed to determine whether Firm B’s audit work was compliant with PCAOB standards.

8. As such, Morgan failed, as described in more detail below, to comply with PCAOB rules and standards during the FY 2015 – FY 2017 Audits.

E. Morgan Violated PCAOB Rules and Standards in Connection with the FY 2015 – FY 2017 Audits of Issuer A

9. For the FY 2015 – FY 2017 Audits, Morgan served as the principal auditor of Issuer A. In each independent auditor’s report included with Issuer A’s financial statements filed with the Commission on Form 20-F for FY 2015 – FY 2017, Morgan stated that it had conducted

its audits in accordance with CAS and PCAOB standards.³ The audit reports did not make reference to another auditor.⁴

10. In connection with the preparation or issuance of any audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing and related professional practice standards.⁵ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.⁶ In addition, AS 1015, *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."⁷

³ The Firm issued audit reports containing unqualified audit opinions on the financial statements of Issuer A dated December 23, 2015, December 28, 2016, and December 21, 2017, respectively. Each report contained an explanatory paragraph on the entity's ability to continue as a going concern, and was included in Forms 20-F filed with the Commission on January 15, 2016, January 18, 2017, and January 18, 2018, respectively.

⁴ See AS 1205.04-.05.

⁵ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards* (applicable to audits for fiscal years ending before December 31, 2016); PCAOB Rule 3200, *Auditing Standards* (applicable to audits for fiscal years ending on or after December 31, 2016). As of December 31, 2016, the PCAOB reorganized its auditing standards using a topical structure and a single, integrated numbering system. See *Reorganization of PCAOB Auditing Standards and Related Amendments to PCAOB Standards and Rules*, PCAOB Release No. 2015-002 (Mar. 31, 2015); see also *PCAOB Auditing Standards Reorganized and Pre-Reorganized Numbering* (January 2017). The reorganization did not impose additional requirements on auditors or change substantively the requirements of PCAOB standards. While Respondent's conduct occurred both before and after the reorganization, the reorganized standards are cited herein for purposes of clarity.

⁶ See AS 3101.07, *Reports on Audited Financial Statements* (applicable to audits for fiscal years ending before December 15, 2017) ("The auditor's standard report states that the financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an audit performed in accordance with the standards of the PCAOB.").

⁷ AS 1015.01.

11. AS 1205, *Part of the 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....”⁸

12. 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 to enable it to serve as the principal auditor and to report as such on the financial statements.⁹

13. In deciding this question, 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 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.¹⁰

14. Whether or not the principal auditor decides to make reference to the audit of the other auditor, it should make inquiries concerning the professional reputation and independence of the other auditor.¹¹ In addition, the principal auditor should adopt appropriate measures to assure the coordination of its 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.¹²

15. A public accounting firm that prepares or issues any audit report with respect to any issuer, broker, or dealer or plays a substantial role in the preparation or furnishing of an audit report with respect to any issuer, broker, or dealer must be registered with the Board.¹³ A public accounting firm plays a substantial role in the preparation or furnishing of an audit report and is thus required to register when it: (1) performs material services that a public accounting

⁸ AS 1205.01.

⁹ See AS 1205.02.

¹⁰ See *id.*

¹¹ See AS 1205.10.

¹² See *id.*

¹³ PCAOB Rule 2100, *Registration Requirements for Public Accounting Firms*; see also Section 102(a) of the Act.

firm uses or relies on in issuing all or part of its audit report; or (2) performs the majority of the audit procedures with respect to a subsidiary or component of any issuer, broker, or dealer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer, broker, or dealer, necessary for the principal auditor to issue an audit report.¹⁴

16. The term “material services” means “services, for which the engagement hours or fees constitute 20% or more of the total engagement hours or fees, respectively, provided by the principal auditor in connection with the issuance of all or part of its audit report.”¹⁵ The term “does not include non-audit services provided to non-audit clients.”¹⁶

i. Morgan’s Use of Firm B’s Work in the FY 2015 – FY 2017 Audits

17. During each of the FY 2015 – FY 2017 Audits, Morgan knew Issuer A’s Mexican subsidiary held a substantial portion—over 90%—of Issuer A’s assets. Morgan used another independent auditor—a Mexican public accounting firm, Firm B—to audit the subsidiary. Morgan inquired as to Firm B’s professional reputation and independence, and understood from its inquiries that Firm B was not registered with the PCAOB.

18. Morgan failed to comply with PCAOB rules and standards in its use of Firm B’s work. For each of the FY 2015 – FY 2017 Audits, Morgan failed to perform any analysis to determine whether it could serve as Issuer A’s principal auditor and use the work of Firm B.

19. Firm B in fact played a substantial role in the each of the FY 2015 – FY 2017 Audits—a level of participation requiring PCAOB registration.¹⁷ Firm B performed the majority of the audit procedures with respect to the assets held by Issuer A’s Mexican subsidiary, which constituted over 90% of the consolidated assets of Issuer A—substantially over the “20% or more” substantial role participation threshold.¹⁸

20. Firm’s B’s engagement hours and fees also amounted to “material services” that Morgan relied upon in issuing its reports, and constituted substantial role participation in the FY

¹⁴ See PCAOB Rule 1001(p)(ii).

¹⁵ See Note 1 to Rule 1001(p)(ii).

¹⁶ See *id.*

¹⁷ See PCAOB Rule 2100.

¹⁸ See PCAOB Rule 1001(p)(ii).

2015 – FY 2017 audits.¹⁹ In particular, the percentage of Firm B’s hours out of the total audit hours ranged from 28% to 44%—each over the “material services” threshold of 20%. Firm B’s fees, which varied from 21% to 24% of the total audit fees, were also over the 20% material services threshold.

21. Morgan failed to consider, in light of the materiality of the assets of the Mexican subsidiary that Firm B audited and the importance of the subsidiary in relation to the enterprise as a whole, whether Morgan’s participation was sufficient to serve as a principal auditor.²⁰ Morgan also failed to perform any analysis as to whether it could use Firm B’s audit work.

22. An adequate inquiry and analysis performed with due professional care concerning Firm B’s professional reputation, based in part on the significance of the assets audited by Firm B, should have revealed that because Firm B was not registered with the PCAOB, Morgan should not have used its audit work.²¹

ii. Morgan Failed to Appropriately Coordinate its Activities with Firm B

23. During the FY 2015 – FY 2017 Audits, Morgan also failed to adopt appropriate measures to assure the coordination of its activities with Firm B in order to achieve a proper review of the matters affecting the consolidating or combining of accounts in Issuer A’s financial statements.²²

24. At the outset of each audit, Morgan provided Firm B with detailed instructions for performing more than 20 specified substantive audit procedures on the Mexican subsidiary, ranging from obtaining and preparing internal control process narratives and walkthroughs to identification of related parties and related balance confirmations. For each audit, Morgan directed Firm B to perform the specified procedures in accordance with CAS, not PCAOB standards. During the FY 2017 audit, for example, Morgan made no mention of PCAOB standards in its instructions to Firm B, and provided Firm B with copies of two CAS standards for reference.

25. Morgan never ascertained whether Firm B was familiar with PCAOB standards, and did not provide Firm B with any comparison or analysis of relevant CAS or PCAOB standards. In fact, Firm B personnel were trained in MAS, and applied MAS to the specified

¹⁹ See *id.*

²⁰ See AS 1205.02.

²¹ See AS 1015.01; AS 1205.02.

²² See AS 1205.10.

procedures, as they were not trained in auditing pursuant to CAS or PCAOB standards. Due to the lack of coordination between Morgan and Firm B, Morgan was not aware that Firm B personnel were applying MAS.

26. Morgan thus failed, during the FY 2015 – 2017 Audits, to perform adequate procedures to determine whether the work Firm B performed complied with the PCAOB standards referenced in its audit reports. In sum, Morgan failed to perform its work with due professional care and to assure the appropriate coordination of its activities with Firm B during the FY 2015 – FY 2017 Audits, in violation of PCAOB standards.²³

iii. Morgan’s Opinions Were Not Formed on the Basis of Audits Performed Pursuant to PCAOB Standards

27. Finally, because Morgan issued audit reports containing unqualified opinions on Issuer A’s financial statements when the Firm had in fact failed during those audits to exercise due professional care and to adhere to PCAOB standards relating to the use of another auditor, as described above, Morgan also violated AS 3101 during the FY 2015 – FY 2017 Audits.²⁴

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), Morgan & Company LLP is hereby censured;
- B. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), the Board imposes a civil money penalty of \$25,000 on Morgan & Company LLP. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. Respondent shall pay this civil money penalty within ten days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier’s check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Office of Finance, Public Company Accounting

²³ See AS 1015.01; AS 1205.10.

²⁴ See AS 3101.07 (applicable to audits for fiscal years ending before December 15, 2017).

Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies the entity or person 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. By consenting to this Order, Respondent acknowledges that failure to pay the civil money penalty described above may alone be grounds to deny any reapplication for registration pursuant to PCAOB Rule 2101.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

March 30, 2021