
 1666 K Street NW
Washington, DC 20006

 Office: 202-207-9100
Fax: 202-862-8430

 www.pcaobus.org

Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

*In the Matter of WDM Chartered Professional
Accountants and Mike Kao,*

Respondents.

PCAOB Release No. 105-2021-016

September 30, 2021

By this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions (“Order”), the Public Company Accounting Oversight Board (“Board” or “PCAOB”) is:

- (1) revoking the registration of WDM Chartered Professional Accountants (“WDM” or the “Firm”), a registered public accounting firm;¹
- (2) barring Mike Kao (“Kao”) from being associated with a registered public accounting firm;² and
- (3) imposing a \$10,000 civil money penalty jointly and severally upon WDM and Kao (collectively, “Respondents”).

The Board is imposing these sanctions on the basis of its findings that: (a) WDM violated PCAOB rules and quality control standards by failing to take sufficient steps to ensure that its system of quality control provided reasonable assurance that its personnel complied with applicable professional standards and the Firm’s standards of quality, despite being made aware repeatedly of quality control concerns by PCAOB inspections; (b) Kao violated PCAOB Rule 3502 by directly and substantially contributing to WDM’s violations of PCAOB quality control standards; and (c) WDM and Kao violated PCAOB rules and auditing standards in connection with the audit of an issuer.

¹ WDM may reapply for registration after five years from the date of this Order.

² Kao may file a petition for Board consent to associate with a registered public accounting firm after five years from the date of this Order.

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 Respondents.

II.

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement (“Offers”) 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 Respondents and the subject matter of these proceedings, which is admitted, Respondents consent to the entry of this Order as set forth below.³

III.

On the basis of Respondents’ Offers, the Board finds that:⁴

A. Respondents

1. **WDM Chartered Professional Accountants** is a chartered accounting firm in Vancouver, British Columbia. The Firm is currently licensed by the Chartered Professional Accountants of British Columbia. WDM registered with the Board on June 21, 2005, and has been subject to PCAOB inspection five times. WDM first registered with the Board as Watson Dauphinee & Masuch, Chartered Accountants. In 2013, the Firm changed its name to WDM Chartered Accountants and, in 2015, the Firm became WDM Chartered Professional

³ The findings herein are made pursuant to the Respondents’ Offers and are not binding on any other person or entity in this or any other proceeding.

⁴ The Board finds that Respondents’ conduct described in this Order meets the conditions set out in Section 105(c)(5) of the Act, 15 U.S.C. § 7215(c)(5), which provides that certain sanctions may be imposed in the event of: (1) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (2) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

Accountants.⁵ At all relevant times, the Firm was registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Mike Kao** is the sole and Managing Partner of the Firm. He is a Chartered Professional Accountant, Certified General Accountant (CPA, CGA) licensed by the Chartered Professional Accountants of British Columbia. At all relevant times, Kao was an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i). Prior to becoming the Managing Partner in 2020, Kao served as the Firm's Engagement Quality and Professional Standards leader. He was the engagement partner for the fiscal year ended December 31, 2019 audit of Issuer A.

B. Issuer A

3. Issuer A is a British Columbia corporation with its principal offices located in Vancouver, British Columbia. Issuer A's public filings disclosed that it is a financial technology services company. At all relevant times, Issuer A was an issuer as defined by Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii).

C. Summary

4. This matter primarily concerns WDM's violations of PCAOB rules and standards in connection with its failure to properly design and implement, and monitor the effectiveness of, a system of quality control, and Kao's direct and substantial contribution to certain of those violations.⁶ Specifically, the Firm failed to: (1) use an audit methodology designed to comply with PCAOB standards and rules; (2) provide technical training; and (3) perform internal monitoring procedures. The Firm's system of quality control, therefore, did not (1) provide reasonable assurance that the work performed by engagement personnel would meet applicable professional standards and regulatory requirements, (2) provide reasonable assurance that personnel participated in continuing professional education that enabled them to fulfill responsibilities assigned, or (3) ensure performance of adequate monitoring procedures, including internal inspections.

⁵ The Firm was previously sanctioned by the Board for failing to timely file required Forms AP. See *WDM Chartered Professional Accountants*, PCAOB Rel. No. 105-2019-007 (Mar. 19, 2019).

⁶ All references to PCAOB rules and standards in this Order are to the versions of those rules and standards, and to their organization and numbering, in effect at the time of the audits discussed herein.

5. During the period from 2009 through 2017, PCAOB inspectors conducted four inspections of the Firm and raised concerns about several significant deficiencies in its system of quality control including in the areas noted above.

6. The Firm was given the opportunity to submit a remediation response to demonstrate that it had satisfactorily addressed the quality control criticisms, and yet each time, the Firm chose not to do so.⁷ The Firm also failed to undertake actions to improve its system of quality control. As of late 2020, the significant historical quality control defects were still present and the Firm's system of quality control was not effective.

7. In addition, the Firm and Kao violated numerous PCAOB rules and standards in conducting the Firm's 2019 audit of Issuer A, by failing to: (1) properly evaluate the accounting for a significant transaction, (2) obtain pre-approval for non-audit services, and (3) properly communicate matters related to the audit to Issuer A's audit committee equivalent. Many of these audit violations are directly linked to the defects in the Firm's quality controls.

D. WDM Violated PCAOB Rules and Quality Control Standards

8. Beginning with the inspection conducted in December 2009, PCAOB inspectors identified, and communicated to WDM, deficiencies in the Firm's system of quality control including, among others, its failure to (1) implement an audit methodology designed to comply with PCAOB standards and rules; (2) provide training to its personnel on PCAOB and SEC requirements; and (3) perform sufficient and appropriate monitoring of its issuer audit practice.⁸ PCAOB inspectors also noted defects in the Firm's performance of issuer audits, including, among others, the failure to (1) perform sufficient audit procedures over material accounts or transactions; (2) perform audit procedures to evaluate material disclosures; and (3)

⁷ As a result, the quality control sections of the PCAOB's inspection reports on WDM were made public. See [WDM Chartered Professional Accountants - Firm Summary](#).

Under the Act and Board rules, portions of an inspection report that deal with criticisms of or potential defects in the quality control system of the firm must remain nonpublic if the firm addresses those criticisms or defects to the Board's satisfaction within 12 months of the report's issuance. If the firm fails to satisfactorily address a quality control criticism within 12 months, the PCAOB expands the publicly available version of the firm's inspection report to reveal those quality control criticisms. See Section 104(g)(2) of the Act; PCAOB Rule 4009.

⁸ See Inspection of Watson Dauphinee & Masuch, at 7-8 (Jan. 28, 2011) ("2009 Inspection Report"); Report on 2012 Inspection of Watson Dauphinee & Masuch, Chartered Accountants, at 6-8 (May 2, 2013) ("2012 Inspection Report"); Report on 2015 Inspection of WDM Chartered Accountants, at 11-12 (Dec. 21, 2015) ("2015 Inspection Report"); Report on 2017 Inspection of WDM Chartered Professional Accountants, at 11-12 (Sept. 20, 2018) ("2017 Inspection Report").

identify and address departures from U.S. generally accepted accounting principles.⁹ Despite the Firm's awareness of these deficiencies and concerns, the Firm's internal monitoring procedures failed to provide reasonable assurance that its system of quality control was effective, and the Firm failed to take and implement timely corrective action to improve quality control. Each of the above quality control defects contributed to the audit deficiencies above, as well as the Firm's and Kao's violations of auditing standards during the audit of the 2019 financial statements of Issuer A.

i. WDM's Quality Control Policies and Procedures Failed to Provide the Firm with Reasonable Assurance that the Work Performed by Engagement Personnel Met Professional Standards

9. PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's quality control standards.¹⁰ These standards require that a registered firm have a system of quality control for its accounting and auditing practice.¹¹ PCAOB quality control standards provide that a registered firm should establish policies and procedures "to provide the firm with reasonable assurance that the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm's standards of quality."¹² Such policies should "encompass all phases of the design and execution of the engagement."¹³ In addition, "[t]o the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement."¹⁴

10. At all relevant times, WDM failed to establish policies and procedures to provide reasonable assurance that the Firm used an audit methodology on issuer audit work that was designed to comply with applicable PCAOB auditing standards and other regulatory

⁹ See Inspection of Watson Dauphinee & Masuch, at 4 (Jan. 28, 2011); Report on 2015 Inspection of WDM Chartered Accountants, at 4 (Dec. 21, 2015); Report on 2017 Inspection of WDM Chartered Professional Accountants, at 4 (Sept. 20, 2018).

¹⁰ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3400T, *Interim Quality Control Standards*.

¹¹ See Quality Control Standard 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice* ("QC § 20"), .01.

¹² QC § 20.17.

¹³ QC § 20.18.

¹⁴ *Id.*

requirements. WDM used an external service provider and its associated practice aids as the Firm's audit methodology for purposes of performing audits of issuers' financial statements that were designed to be conducted in accordance with Canadian Auditing Standards ("CAS") and not PCAOB and SEC requirements. As early as 2009, WDM understood that use of its audit methodology on issuer audits did not meet PCAOB requirements.

11. Despite being aware for more than a decade that its audit methodology was not designed for work in accordance with PCAOB standards, WDM failed to implement a system to ensure that issuer audits were conducted in accordance with PCAOB standards. Indeed, during 2015, WDM obtained third-party prepared forms for use on issuer audits, but in the years that followed, the Firm failed to implement a system to ensure that firm personnel were using those forms during issuer audit work. As a result, WDM continued to use CAS methodology and practice aids on its issuer audits rather than the forms designed to assist the Firm in complying with PCAOB standards. Thus, WDM failed to implement a system to provide reasonable assurance that the work performed by engagement personnel complied with professional standards and regulatory requirements in violation of QC § 20.17.

ii. WDM Quality Control Policies and Procedures Failed to Provide the Firm with Reasonable Assurance that Personnel Participated in Training on PCAOB and SEC Requirements

12. PCAOB quality control standards provide that firms should establish policies and procedures to provide the firm with reasonable assurance that "[w]ork is assigned to personnel having the degree of technical training and proficiency required in the circumstances" and "[p]ersonnel participate in general and industry-specific continuing professional education . . . that enable them to fulfill responsibilities assigned."¹⁵

13. Despite these requirements, WDM repeatedly failed to establish policies and procedures to require those assigned to PCAOB audits to participate in continuing professional education to ensure that such individuals received periodic technical training related to PCAOB standards and SEC reporting requirements, rules, and regulations. Instead, the Firm relied upon an informal "hands-on" approach to training where senior staff, including Kao, would inform junior staff of what the audit entails and train them on the use of WDM's audit program. This approach assumed that Kao had the requisite knowledge of PCAOB and SEC requirements to appropriately teach the more junior staff; however, the Firm failed to take any actions to ensure that Kao had that knowledge and failed to require that Kao obtain formal training in such requirements. In fact, although Kao reviewed PCAOB update newsletters, he did not

¹⁵ See QC § 20.13.

attend any continuing professional education courses related to PCAOB and SEC requirements. Accordingly, the Firm's reliance on Kao to train junior staff on PCAOB and SEC requirements was misplaced and did not provide reasonable assurance that personnel participated in continuing professional education to enable them to fulfill responsibilities assigned or that work was being assigned to personnel having the degree of technical training and proficiency required to perform audits under PCAOB standards.

14. The Firm was also on notice that in prior years its approach to training had failed to provide reasonable assurance that its staff could fulfill assigned responsibilities. The Firm's 2009 and 2012 PCAOB inspection reports included quality control findings on that issue. Significantly, the Firm's 2012 Inspection Report emphasized the Firm's failure to take "meaningful steps to address" the Firm's prior failure to implement procedures "to provide sufficient assurance that individuals assigned to issuer clients receive periodic technical training related to PCAOB standards and SEC reporting requirements, rules, and regulations."¹⁶

15. Despite the Firm's Quality Assurance Manual's ("QAM") requirement that staff understand and comply with all relevant professional standards, defects in the Firm's training-related quality controls continued in 2020 because the staff had not received training on PCAOB and SEC requirements. The defects were attributable to the Firm's continued failure to implement a system that ensured its personnel received periodic training on PCAOB and SEC requirements from appropriate sources.¹⁷ As a result, the Firm violated QC § 20.¹⁸

16. Because the Firm failed to ensure that its staff received appropriate training on SEC and PCAOB requirements, it was unable to ensure that work was assigned to personnel having the degree of technical training and proficiency required in the circumstances and that personnel participated in general and industry-specific continuing professional education that enabled them to fulfill their assigned responsibilities. Accordingly, the Firm violated QC § 20.¹⁹

¹⁶ See Report on 2012 Inspection of Watson Dauphinee & Masuch, Chartered Accountants, at 8 (May 2, 2013).

¹⁷ Although the Firm's QAM required personnel to understand and comply with relevant professional requirements, its QAM did not require personnel to participate in continuing professional education on PCAOB and SEC requirements. The Firm's policies and procedures do not specify how the Firm expected its personnel to develop the required understanding.

¹⁸ See QC § 20.13.

¹⁹ *Id.*

iii. WDM Failed to Perform Internal Monitoring to Ensure Its System of Quality Control Was Operating Effectively

17. Pursuant to PCAOB standards, firms should also establish policies and procedures to provide reasonable assurance that: (a) “the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and the firm’s standards of quality,”²⁰ including with respect to “planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement”²¹ and (b) the firm’s quality control policies and procedures “are suitably designed and are being effectively applied.”²²

18. PCAOB quality control standards further provide that one required element of a quality control system is monitoring.²³ Monitoring involves an ongoing consideration and evaluation of: (a) the relevance and adequacy of the firm’s policies and procedures; (b) the appropriateness of the firm’s guidance materials and any practice aids; (c) the effectiveness of professional development activities; and (d) compliance with the firm’s policies and procedures.²⁴ Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective.²⁵

19. To satisfy its PCAOB practice monitoring requirements, WDM’s QAM required that the Firm perform triennial internal inspections; however, the Firm has not performed a cyclical inspection of completed audit files since 2016. Moreover, when the Firm conducted an internal inspection in 2016, Issuer A, the Firm’s only issuer audit client at the time, was not included in the internal inspection. As a result, over the course of at least five years, the Firm did not perform an internal inspection to assess whether the work performed by its engagement personnel on PCAOB audits meets the applicable professional standards, regulatory requirements, and the Firm’s standards of quality.

20. Significantly, the Firm failed to perform appropriate monitoring procedures even after receiving repeat criticisms from PCAOB inspectors. Specifically, the 2009 Inspection Report noted that “the Firm’s engagement performance monitoring program [did] not include procedures to evaluate whether audits of issuers are being conducted in accordance with

²⁰ QC § 20.17.

²¹ QC § 20.18.

²² QC § 20.20; *see also* QC § 30.02, *Monitoring a CPA Firm’s Accounting and Auditing Practice*.

²³ QC § 20.07.

²⁴ QC § 30.02; *see also* QC § 20.20.

²⁵ QC § 30.03.

PCAOB standards.”²⁶ In the 2015 Report, PCAOB inspectors noted that the Firm had not performed any monitoring procedures since 2011.²⁷

21. Despite these quality control criticisms and the engagement-level deficiencies noted by PCAOB inspectors during prior inspections, the Firm repeatedly failed to follow the monitoring requirements set forth in its QAM in violation of QC § 30.²⁸ Therefore, with respect to its PCAOB issuer audits, since 2016 the Firm did not undertake monitoring procedures to enable the firm to obtain reasonable assurance that its system of quality control was effective. Accordingly, the Firm violated QC §§ 20 and 30.

E. Kao Directly and Substantially Contributed to WDM’s QC Violations

22. PCAOB Rule 3502 states that “[a] person associated with a registered public accounting firm shall not take or omit to take an action knowing, or recklessly not knowing, that the act or omission would directly and substantially contribute to a violation by that registered public accounting firm of the Act, the Rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under the Act, or professional standards.”²⁹

23. At the time of the 2015 PCAOB inspection, Kao served as the Firm’s Engagement Quality and Professional Standards leader. He also served as the engagement partner on the Firm’s issuer audits that were reviewed during each of the Firm’s PCAOB inspections. After a Firm restructuring in February 2020, Kao assumed the role of Managing Partner. In these management roles, Kao was responsible, at least in part, for the Firm’s system of quality control, was on notice of the PCAOB inspection findings identifying deficiencies in the Firm’s system of quality control discussed above, and was in a position to remediate those deficiencies. Yet Kao knowingly failed to take appropriate actions to provide reasonable assurance that the Firm’s quality controls were suitably designed and being effectively applied. Specifically, Kao, as engagement partner on issuer audits, was in a position to ensure that forms purchased by the Firm to ensure compliance with PCAOB and SEC requirements were actually used on the audits. Instead, Kao relied on the Firm’s CAS audit methodology, which contributed

²⁶ See Report on 2012 Inspection of Watson, Dauphinee & Masuch, Chartered Accountants, at 7 (May 2, 2013).

²⁷ See Report on 2015 Inspection WDM Chartered Accountants, at 11 (Dec. 12, 2015).

²⁸ See QC § 30.02.

²⁹ PCAOB Rule 3502, *Responsibility Not to Knowingly or Recklessly Contribute to Violations*.

to the Firm's violation of auditing standards on its issuer audits. In his Firm leadership roles, Kao also was in a position to ensure that the Firm performed its cyclical inspection of completed audits, yet again Kao failed to do so.

24. As a result, Kao directly and substantially contributed to the Firm's ongoing violations of audit methodology and practice monitoring-related PCAOB quality control standards in violation of Rule 3502.

F. In Part Due to WDM's Quality Control Failures, WDM and Kao Violated PCAOB Rules and Auditing Standards in the 2019 Audit of Issuer A

25. For the year ended December 31, 2019, WDM served as the auditor for Issuer A and issued an audit report stating it was independent and had conducted its audit in accordance with the requirements of Canadian Generally Accepted Auditing Standards and the standards of the PCAOB.

i. WDM and Kao Failed to Evaluate Whether Issuer A Accounted for a Business Combination in Conformity with International Financial Reporting Standards

26. 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.³⁰ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor conducted an audit in accordance with PCAOB standards and concludes that the financial statements, taken as a whole, are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.³¹ 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."³²

27. Under AS 2810, *Evaluating Audit Results*, "[a]s part of the overall review, the auditor should evaluate whether ... [t]he evidence gathered in response to unusual or unexpected transactions... is sufficient; and ... [u]nusual or unexpected transactions... indicate risks of material misstatement that were not identified previously, including, in particular, fraud

³⁰ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

³¹ AS 3101.02, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

³² AS 1015.01.

risks.”³³ The auditor should also “obtain corroboration for management’s explanations regarding significant unusual or unexpected transactions[.]”³⁴ The auditor is also required to evaluate whether the financial statements are presented fairly and in conformity with the applicable financial reporting framework.³⁵

28. Issuer A entered into an agreement (“Acquisition Agreement”) in 2019 to acquire all the assets and liabilities of a third party, (“Company X”). Under the terms of the Acquisition Agreement, a newly formed corporation, (“Company Y”), acquired all the assets and liabilities of Company X. As a result of this acquisition agreement transaction, Issuer A obtained control of Company Y and consolidated it, using Company Y’s book value, into Issuer A’s consolidated financial statements as of December 31, 2019.

29. Despite designating this transaction a “significant event” in the audit work papers, WDM and Kao failed to evaluate or instruct the engagement team to evaluate the appropriateness of the issuer’s accounting for the acquisition, including the initial recognition and measurement of the assets and liabilities assumed and consideration paid. Rather, WDM and Kao simply accepted management’s accounting determination and measurement without any evaluation including whether the transaction should be accounted for as a business combination or an asset acquisition. As a result, WDM and Kao violated AS 1015 and AS 2810 because they failed to (a) exercise professional skepticism, (b) evaluate whether the engagement team had obtained sufficient appropriate evidence to support the appropriateness of the accounting for the significant unusual transaction, and (c) evaluate whether the financial statements were presented fairly and in conformity with International Financial Reporting Standards.

ii. WDM and Kao Failed to Obtain Pre-Approval for Tax Services

30. In addition to complying with PCAOB rules and standards with respect to independence, an auditor has an obligation to satisfy all other independence criteria applicable to the engagement.³⁶ This obligation includes independence criteria set out in the rules and

³³ AS 2810.06.

³⁴ AS 2810.08; *see also* AS 1015.07-.09 (“The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.”).

³⁵ AS 2810.30.

³⁶ *See* Note 1 to Rule 3520, *Auditor Independence*.

regulations of the Commission under federal securities laws.³⁷ SEC independence rules specify that audit and non-audit services are required to be pre-approved by an issuer's audit committee or audit committee equivalent, and PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services*, sets forth additional requirements relating to audit committee pre-approval of tax services.³⁸

31. For the year ended December 31, 2019, WDM provided tax services to Issuer A that consisted of preparation and filing of Corporate Income Tax and Goods and Services Tax returns. Both the Firm and Kao were aware of the requirement to obtain pre-approval for such services as both U.S. and Canadian regulators require such pre-approval and the Firm and Kao had obtained pre-approval for similar services provided to Issuer A during previous years. Despite being aware of the requirement, the Firm and Kao, as engagement partner on the audit of Issuer A, failed to obtain pre-approval for such services from Issuer A's Board of Directors.³⁹

32. Therefore, WDM violated PCAOB Rules 3520 and 3524, and Kao directly and substantially contributed to the Firm's violation, in violation of Rule 3502, by knowingly or recklessly failing to obtain the necessary pre-approvals for tax services provided to Issuer A.

iii. WDM and Kao Failed to Communicate All Required Matters to Audit Committee

33. AS 1301, *Communications with Audit Committees*, requires the auditor to communicate certain matters related to the conduct of an audit to the issuer's Audit Committee.⁴⁰ In connection with its audit of Issuer A's December 31, 2019 financial statements, WDM issued letters to the Audit Committee, dated February 19, 2020, and June 4, 2020.

34. Despite issuing the two letters, WDM and Kao failed to address certain required communications, including: (a) whether there were any significant issues discussed with management in connection with the retention of the auditor; (b) critical accounting policies and practices, critical accounting estimates, qualitative aspects of significant accounting policies and practices, assessment of critical accounting policies and practices, and conclusions regarding critical accounting estimates; and (c) matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined

³⁷ See *id.*

³⁸ See Rule 2-01(c)(7) of Regulation S-X; PCAOB Rule 3524.

³⁹ The Issuer's Board of Directors is the Audit Committee equivalent as defined by PCAOB Rule 3501(a)(v), *Definitions of Terms Employed in Section 3, Part 5 of the Rules*.

⁴⁰ See AS 1301.01.

are relevant to the audit committee's oversight of the financial reporting process.⁴¹ WDM and Kao were aware of the requirements of AS 1301, as the Firm's 2017 PCAOB Inspection Report included an observation related to the Firm's failure to comply with the requirements of AS 1301 on its 2016 audit of Issuer A.

35. Therefore, WDM and Kao violated AS 1301.

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 Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of WDM Chartered Professional Accountants is revoked;
- B. After five years from the date of this Order, WDM Chartered Professional Accountants may reapply for registration by filing an application pursuant to PCAOB Rule 2101;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Mike Kao is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);⁴²
- D. After five years from the date of this Order, Kao may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm; and
- E. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$10,000 is imposed jointly and severally upon

⁴¹ See AS 1301.04, .12, .13, .15.

⁴² As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Kao. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

WDM and Kao. 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. Respondents 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 Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under a cover letter, which identifies WDM or Kao 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, Respondents acknowledge that a failure to pay the civil money penalty described above may alone be grounds to deny any petition to terminate a bar pursuant to PCAOB Rule 5302(b) or a reapplication for registration pursuant to PCAOB Rule 2101.***

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 30, 2021