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Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions

In the Matter of Hay & Watson and Essop Mia, CPA

Respondents.

PCAOB Release No. 105-2022-017

September 13, 2022

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

- (1) censuring Hay & Watson (the “Firm”), a registered public accounting firm, and Essop Mia, CPA (“Mia”);
- (2) revoking the registration of Hay & Watson;
- (3) barring Mia from being associated with a registered public accounting firm; and
- (4) imposing a \$50,000 civil money penalty jointly and severally upon the Firm and Mia (collectively, “Respondents”).

The Board is imposing these sanctions on the basis of its findings that Respondents violated PCAOB rules and standards by improperly altering work papers and then providing them to Board inspectors in connection with a Board inspection.

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 each submitted an Offer of Settlement (collectively, “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.¹

III.

On the basis of Respondents’ Offers, the Board finds that:²

A. Respondents

1. **Hay & Watson** is the business name of three entities, including Essop Mia Limited, a public accounting firm headquartered in Vancouver, British Columbia. Essop Mia Limited (d/b/a Hay & Watson) is licensed to practice public accounting in, among other places, British Columbia, Canada (license no. C026186). The Firm is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Essop Mia, CPA** is the owner and managing partner of Essop Mia Limited, a Chartered Professional Accountant under the laws of British Columbia, Canada (license no. C026186), and, at all relevant times 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). Mia served as the engagement partner on the Firm’s audits and reviews of Issuer A for the fiscal years ended August 31, 2018 through August 31, 2021.

¹ 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.

² 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: (a) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (b) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

B. Issuer

3. **Issuer A** is an Ontario, Canada corporation headquartered in Sherman Oaks, California. According to public filings, Issuer A is a holding company engaged in various aspects of the oil and gas industry. 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). Issuer A was, at all relevant times, the Firm's only issuer audit client.

C. Summary

4. This matter concerns Respondents' failure to comply with PCAOB rules and standards related to audit documentation and the obligation to cooperate with a Board inspection.

5. Mia and the Firm failed to assemble a final set of audit documentation as of the documentation completion date in connection with the Firm's audit of Issuer A's August 31, 2019 financial statements ("2019 Audit"). Instead, Mia, and others acting at his direction, continued to improperly alter, add to, and backdate work papers months after the documentation completion date.

6. Respondents subsequently violated PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, by providing the altered work papers to the Board's inspectors without disclosing that they had been altered.

D. Respondents Violated PCAOB Rules and Standards

7. PCAOB rules require that associated persons of registered public accounting firms comply with applicable auditing and related professional practice standards.³ As set out below, Respondents failed to comply with PCAOB rules and standards.

i. Documentation Violations

a. Alterations

8. PCAOB auditing standards require that an auditor assemble for retention as of a date not more than 45 days after the report release date ("documentation completion date") a complete and final set of audit documentation.⁴ While information may be added to the work papers after the documentation completion date, the new documentation must disclose the

³ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200, *Auditing Standards*.

⁴ See AS 1215.15, *Audit Documentation*.

date the information was added, the name of the person who prepared the additional documentation, and the reason for adding the information to the work papers after the documentation completion date.⁵

9. The Firm issued its audit report for the 2019 Audit on December 15, 2019, which was included in Issuer A's Form 10-K filed on December 16, 2019. As a result, the 45-day period for the Firm to complete its documentation for the 2019 Audit ended no later than January 29, 2020.

10. Mia and the Firm, however, did not assemble a complete and final set of audit documentation for retention within 45 days following the report release date for the 2019 Audit. Instead, at Mia's direction, members of the Firm continued to modify the 2019 Audit work papers after the documentation completion date.

11. Mia, and members of the Firm acting at his direction, created or modified at least 68 documents after the documentation completion date for the 2019 Audit, including 42 in September 2020 and 18 in October 2020. Of these 68 documents, at least four documents were created after January 29, 2020 and added to the 2019 Audit file.

12. Notwithstanding the modifications and additions to the 2019 Audit file, Respondents failed to properly document who added the information to the work papers after the documentation completion date, as well as when and why the information was added.

b. Backdating

13. PCAOB rules require that audit documentation "contain sufficient information to enable an experienced auditor, having no previous connection with the engagement," to understand, among other things, the timing of the procedures performed, evidence obtained, and conclusions reached, and to determine not just who performed and reviewed the work but also "the date such work was completed" and "the date of such review."⁶

14. Members of the Firm, at Mia's direction, improperly backdated at least 30 work papers in the 2019 Audit file by adding signoffs in the Firm's audit documentation software during September and October 2020 that incorrectly indicated the work papers were prepared or completed before issuance of the 2019 Audit report. Also, although he did not backdate his own signoffs, Mia signed off on a total of 339 work papers in the 2019 Audit file after the

⁵ See *id.* at .16.

⁶ See *id.* at .06.

documentation completion date, including 326 that were signed off on October 24, 2020, such that an experienced auditor would not understand when Mia completed his review.

ii. Noncooperation with a Board Inspection

15. PCAOB rules require that registered public accounting firms and associated persons “shall cooperate with the Board in the performance of any Board inspection.”⁷ This cooperation obligation includes an obligation not to provide misleading documents or information in connection with, or otherwise to interfere with, the Board’s inspection processes.⁸ An auditor provides misleading information if he or she fails to disclose that documentation presented to inspectors as having existed at the time of the audit was, in fact, subsequently altered or created.⁹

16. On August 3, 2020, Board inspectors contacted Mia, the Firm’s designated Board contact, to inform him that the Firm had been identified for inspection as part of the Board’s triennial inspection program. A few days later, Board inspectors informed Mia that the 2020 inspection of the Firm would take place remotely during the week of November 2, 2020, and that Mia should plan to make audit work papers available to Board inspectors the week of October 26, 2020.

17. Respondents received formal notice of the inspection on August 14, 2020, in a letter reiterating that field work would begin on November 2, 2020. On October 13, 2020, Board inspectors informed Mia that they had selected Issuer A (the Firm’s only issuer client) for inspection and identified the areas of focus for that engagement.

⁷ PCAOB Rule 4006.

⁸ See, e.g., *Kabani & Co., Inc.*, Rel. No. 34-80201, 2017 WL 947229, at *12 (SEC Mar. 10, 2017), *petition for review denied*, *Kabani & Co., Inc. v. SEC*, 733 Fed App’x 918 (9th Cir. 2018) (sustaining Board finding that respondents failed to cooperate with inspection where improper work paper alterations “interfered with the PCAOB’s ability to fulfill its regulatory function of ensuring that auditors comply with their professional responsibilities”); *Dale Arnold Hotz, CPA, Jyothi Nuthulaganti Manohar, CPA, and Michael Jared Fadner, CPA*, PCAOB Rel. No. 105-2012-008, ¶ 7 (Nov. 13, 2012) (Rule 4006 “includes an obligation not to provide misleading documents or information in connection with the Board’s inspection processes.” (internal quotation omitted)).

⁹ See, e.g., *Elliot D. Kim, CPA*, PCAOB Rel. No. 105-2018-010 (May 23, 2018) (respondent failed to cooperate with inspection when he remained silent during discussion with inspectors of document that he had improperly altered); *José Fernandez Alves*, PCAOB Rel. No. 105-2016-039 (Dec. 5, 2016) (respondent failed to cooperate when he failed to disclose during meeting with inspectors that he had learned that certain documents had been improperly altered); *Renata Coelho de Sousa Castelli*, PCAOB Rel. No. 105-2016-040 (Dec. 5, 2016) (same).

18. On October 25, 2020, Mia provided the 2019 Audit file to Board inspectors in connection with the inspection. During the inspection, Board inspectors identified that the 2019 Audit file contained work paper modifications after the documentation completion date, and Mia provided inspectors with a written explanation, prepared during the inspection, for why the changes had occurred. Mia's explanation addressed changes made to the 2019 Audit file between January 29, 2020 and May 11, 2020, but failed to address the changes made in September and October 2020.

19. As a result, Mia did not identify the existence of, or include any explanation in the 2019 Audit file for, the work papers that had been modified in September and October 2020. Nor did Mia inform Board inspectors that signoffs on numerous work papers had been backdated in September and October 2020 to falsely indicate that the signoffs had occurred prior to issuance of the audit report.

20. Accordingly, by providing the improperly altered work papers to Board inspectors, Respondents violated PCAOB Rule 4006.

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)(E) of the Act and PCAOB Rule 5300(a)(5), Hay & Watson and Essop Mia are hereby censured;
- B. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Hay & Watson is revoked;
- C. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Essop Mia 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),¹⁰ and

¹⁰ As a consequence of the bar, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Mia. 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

- D. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), a civil money penalty in the amount of \$50,000 is imposed jointly and severally upon Hay & Watson and Essop Mia. 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 the firm or the 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, Hay & Watson and Essop Mia acknowledge that a failure to pay the civil money penalty described above may alone be grounds to deny any request for leave to file an application for registration or a petition to terminate a bar pursuant to PCAOB Rule 5302(c).***

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

September 13, 2022

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.”