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**Inspection of
Davidson & Company LLP
(Headquartered in Vancouver, Canada)**

**Issued by the
Public Company Accounting Oversight Board
March 31, 2011**

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT
PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2011-099



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning whether an issuer's financial statements are misstated or fail to comply with Commission disclosure requirements, rests with the Commission. Any description, in this report, of financial statement misstatements or failures to comply with Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



INSPECTION OF DAVIDSON & COMPANY LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Davidson & Company LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{1/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{2/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

^{2/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from November 9, 2009 to November 20, 2009.^{3/} These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

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|--|-------------------------------|
| Number of offices | 1 (Vancouver, Canada) |
| Ownership structure | Limited liability partnership |
| Number of partners | 9 |
| Number of professional staff ^{4/} | 63 |
| Number of issuer audit clients ^{5/} | 27 |

^{3/} The Board's inspection was conducted in cooperation with the Canadian Public Accountability Board.

^{4/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{5/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{6/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"), or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").^{7/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of four issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

^{6/} This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

^{7/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP or IFRS, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

The inspection team identified what it considered to be audit deficiencies.^{8/} The deficiencies identified in all four of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{9/} Those deficiencies were –

- (1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material misstatement in the audited financial statements concerning cash and cash equivalents;
- (2) the failure to perform audit procedures to test the completeness of a liability recorded by the issuer;
- (3) the failure, in two audits, to perform sufficient audit procedures related to using the work of specialists;

^{8/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

^{9/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

- (4) the failure to perform sufficient procedures to test the existence of inventory;
- (5) the failure to perform audit procedures to test the classification of certain investments as cash and cash equivalents;
- (6) the failure to perform sufficient procedures to evaluate the issuer's accounting for a business combination; and
- (7) the failure to perform audit procedures to test the disclosed difference between the carrying amounts of mineral properties as presented under Canadian GAAP and as it would be reported under GAAP.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. Any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.^{10/}

^{10/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

March 16, 2011

Ms. Helen A. Munter, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Ms. Munter:

Re: Davidson & Company LLP Response to Draft Report on 2009 Inspection of Davidson & Company LLP

We are pleased to provide our response to the Public Company Accounting Oversight Board's (the "PCAOB" or "Board") Draft Report regarding the 2009 Inspection of our Firm (the "Draft Report").

Davidson & Company LLP is committed to the highest standards of audit quality. We continually monitor our methodologies, policies, procedures and practices and seek every opportunity to make changes when we identify improvements that could enhance audit quality.

Just as auditors use their judgment to determine auditing procedures to be performed, the PCAOB inspection staff's observations are based upon their judgments regarding audit risk assessments and financial statement materiality. We view the PCAOB's comments as very helpful and give each comment careful and thoughtful consideration. While we may have differing views as to the nature and extent of necessary audit procedures, resulting conclusions, and/or required documentation in specific circumstances, we recognize that judgments are involved in both the performance of an audit and the subsequent inspection process.

Davidson & Company LLP has been subject to inspections by the PCAOB in 2005 and 2009. In Canada, the Canadian Public Accountability Board ("CPAB") was formed in 2003 to carry out inspections of Canadian accounting firms. Davidson & Company LLP have been subject to annual CPAB inspections, every year since its inception. The 2009 PCAOB inspection of Davidson & Company LLP was carried out in conjunction with CPAB's 2009 inspection. We look forward to receiving PCAOB's Final Report and also working cooperatively with you to implement any suggestions you have on our never ending commitment to improving firm audit quality.



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Although we do not always agree with the characterization of our work in the Draft Report, we have carefully considered the matters described in Part I – *Inspection Procedures and Certain Observations* and Part II – *Detailed Discussion of Inspection Results* of the Draft Report.

With respect to the findings identified in Part I of the 2009 PCAOB Report, we are addressing certain of the engagement-specific findings identified by the PCAOB by either performing additional audit procedures in accordance with AU 390, “Consideration of Omitted Procedures After the Report Date,” or improving audit documentation in a manner consistent with PCAOB auditing standards and our internal policies and procedures.

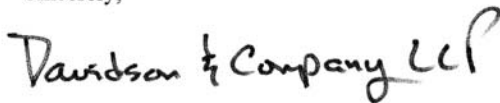
We do however, disagree with certain items contained in Part I and II of the draft report in that the staff in performing their review have not taken into account all information provided to them in their assessment of perceived audit deficiencies and or accounting errors.

Redacted - Comments on Non-public Aspects of Report

In light of this we would like to provide the attached responses to the Draft Report, and ask that these be taken into consideration in forming the content of your Final Report.

We appreciate this opportunity to formally respond to the PCAOB’s 2009 Draft Inspection Report. We remain committed to working with the PCAOB in support of our continuous improvement efforts and our unwavering commitment to audit quality. We would be pleased to discuss any aspect of our response or any further questions you may have.

Sincerely,



DAVIDSON & COMPANY LLP
Chartered Accountants