

*Canadian Public Accountability Board  
And  
Manning Elliott LLP*

## **Part I – Preamble**

1. The Canadian Public Accountability Board’s (CPAB) mandate includes the oversight of firms that conduct audits of Canadian reporting issuers. In 2022, CPAB conducted an inspection of four reporting issuer<sup>1</sup> files audited by Manning Elliott LLP pursuant to Section 400 of the Rules of the Canadian Public Accountability Board (the “Rules”), as authorized by the *Canadian Public Accountability Board Act*, R.S.O. 2006, C. C-33 (the “Act”).
2. Two of the four files inspected contained significant inspection findings<sup>2</sup>, each of which constitute separate Violation Events<sup>3</sup> (as defined in the Rules). As a result of these Violation Events and Manning Elliott LLP’s elevated significant inspection findings over the last three consecutive inspections (2020, 2021 and 2022), CPAB imposed a restriction on Manning Elliott LLP’s practice under Rule 601(f) as well as requirements under Rule 601(a), (b), (e), (i) and (k) and a sanction under Rule 601(h). These actions have been taken in accordance with CPAB’s mandate to foster confidence in the integrity of financial reporting by Canadian reporting issuers.

## **PART II – The Parties**

3. Manning Elliott LLP (the “Firm” or “Manning Elliott”) is a limited liability partnership located in the province of British Columbia. It has a public company audit practice, and at the time of CPAB’s inspection, the Firm audited approximately 126 reporting issuers.
4. Pursuant to National Instrument 52-108 *Auditor Oversight*, auditors of reporting issuers are required to be registered with CPAB as a Participating Audit Firm. Participating Audit Firms are

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<sup>1</sup>A reporting issuer is a company that has gone public by issuing securities under a prospectus or is listed on a recognized stock exchange. Reporting issuer is defined within Part/Section 1 of each province and territories Securities Act.

<sup>2</sup> A significant inspection finding is defined as a significant deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work in the current year to support the audit opinion and/or is required to make significant changes to its audit approach.

<sup>3</sup> “Violation Event” means (i) an act or practice, or omission to act, in violation of the Rules or Professional Standards that may have an effect on the provision of audit services to reporting issuers, (ii) a failure to supervise appropriately a person with a view to preventing violations of the Rules or Professional Standards, and such person has committed an act or omitted to act in violation of the Rules or Professional Standards that may have an effect on the provision of audit services to reporting issuers, (iii) a failure to cooperate with the terms of an Inspection or Investigation; or (iv) a failure to comply with the terms of any requirement, restriction or sanction imposed by CPAB.

authorized to audit financial statements issued by Canadian reporting issuers. Manning Elliott was, at all relevant times, registered with CPAB pursuant to Rule 200.

### **PART III – Facts**

5. Manning Elliott is inspected annually by CPAB. In 2020, CPAB inspected four files and identified seven significant inspection findings in the Firm’s application of the Canadian Generally Accepted Auditing Standards related to a material financial statement balance or transaction stream. All of the four files, or 100 per cent of the files inspected, had at least one significant inspection finding. In 2021 CPAB inspected five files and identified six significant findings. Four of the five files, or 80 per cent of files inspected, had at least one significant finding.
6. As a consequence of the 2020 and 2021 inspections, and in the interest of improving audit quality at the Firm, certain enforcement actions were imposed on the Firm in each of these years.
7. During the most recent inspection in 2022, CPAB inspected four audit files and identified three significant inspection findings over two files, or 50 per cent of the files inspected. The results of the 2022 inspection, while an improvement over previous inspections, indicate that concerns over audit quality still have not been sufficiently addressed.
8. Each of the significant inspection findings identified during CPAB’s 2022 inspection, in relation to two audits of the financial statements for the year ended 2021, represents a breach of one or more professional standards<sup>4</sup> and constitutes a Violation Event as defined in CPAB’s Rules. Specifically, the following Canadian Auditing Standards (CAS) were breached:
  - i. *CAS 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment.*
  - ii. *CAS 330 The Auditor’s Responses to Assessed Risks.*
  - iii. *CAS 500 Audit Evidence.*
  - iv. *CAS 540 Auditing Accounting Estimates and Related Disclosures.*

### **Part IV – Enforcement actions imposed**

9. In view of the Violation Events outlined above, and to contribute to public confidence in the integrity of financial reporting by public companies, CPAB determined it appropriate to impose the following enforcement actions:
  - a. The Firm is prohibited from accepting new high and medium risk reporting issuer clients including those resulting from initial public offerings, reverse takeovers or other transactions. For greater clarity, an existing private company audit client seeking to become a reporting issuer through initial public offering, reverse takeover or other transaction is considered a new reporting issuer for the purposes of this restriction.

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<sup>4</sup> CPAB Rules require that a participating audit firm and the designated professionals of such firm shall comply with auditing standards generally accepted in Canada, including the Canadian Auditing Standards, and Canadian Standards on Quality Control.

In compliance with this restriction, the Firm has provided definitions of high and medium risk reporting issuer clients that are acceptable to CPAB.

- b. The Firm shall be publicly censured<sup>5</sup>.
10. In addition to the actions outlined above, CPAB requires the Firm to implement a variety of measures aimed at improving audit quality including: i) the continuation of the external monitor, ii) the appointment of an external professional to perform internal quality monitoring of the Firm's system of quality management and individual completed audit engagements, iii) engagement of an external party to provide professional education and training, iv) testing the operating effectiveness of a variety of controls the Firm has implemented and v) conduct additional in-flight reviews. The Firm is also subject to enhanced oversight from CPAB in the form of quarterly meetings and is required to pay a monetary assessment to recover the costs of enhanced oversight and monitoring of the Firm's compliance with the enforcement actions.
11. CPAB determined that a number of Violation Events occurred and provided notice to the Firm of the proposed enforcement actions that CPAB intended to impose under Rule 601. The enforcement actions imposed took effect on June 19, 2023.
12. Each enforcement action imposed on the Firm shall continue until the Firm has, to CPAB's satisfaction, implemented each of the requirements imposed and has demonstrated a sustained improvement in audit quality.

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<sup>5</sup> The censure will remain on the CPAB website for four years following the termination of the restriction noted in subparagraph 9. a).