

*Canadian Public Accountability Board
and
Kingston Ross Pasnak 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.¹ In 2023, CPAB conducted an inspection of three reporting issuer files audited by Kingston Ross Pasnak LLP (the “Firm” or “KRP”) 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 three files inspected contained a total of four significant inspection findings², each of which constitutes a separate Violation Event³ (as defined in the Rules). As a result of these Violation Events and KRP’s elevated significant inspection findings over the last three consecutive inspections (2018, 2019 and 2022), CPAB imposed a restriction on KRP’s practice under Rule 601(f) and (g), as well as requirements under Rule 601 (a), (b), (c), (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. KRP is a limited liability partnership located in the province of Alberta. It has a public company audit practice, and at the time of CPAB’s 2023 inspection the Firm audited approximately 25 reporting issuers.

¹A 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’s and territory’s *Securities Act*.

² 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.

³ “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.

4. Pursuant to National Instrument 52-108 - Auditor Oversight, auditors of Canadian reporting issuers are required to be registered with CPAB as a Participating Audit Firm. Participating Audit Firms are authorized to audit financial statements issued by Canadian reporting issuers. The Firm was, at all relevant times, registered with CPAB pursuant to CPAB Rule 201.

PART III – Facts

5. KRP is subject to periodic inspections by CPAB. In 2019, CPAB inspected one file and identified one significant inspection finding in the Firm’s application of the Canadian Generally Accepted Auditing Standards related to a material financial statement balance or transaction stream. In 2022, CPAB inspected three files and identified seven significant findings. Each of the files inspected had at least one significant finding.
6. As a consequence of the 2022 inspection, and in the interest of improving audit quality at the Firm, certain enforcement actions were imposed on the Firm.
7. During the most recent inspection in 2023, CPAB inspected three audit files and identified four significant inspection findings in two files or 66 per cent of the files inspected. The results of the 2023 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 2023 inspection represents a breach of one or more professional standards⁴ and constitutes a Violation Event as defined in CPAB’s Rules. Specifically, the following Canadian Auditing Standards (CAS) were breached:
 - i. CAS 230, Audit Documentation.
 - ii. CAS 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements.
 - iii. CAS 315, Identifying and Assessing Risks of Material Misstatement.
 - iv. CAS 330, The Auditor’s Responses to Assessed Risks.
 - v. CAS 402, Audit Considerations Related to an Entity Using a Service Organization.
 - vi. CAS 500, Audit Evidence.
 - vii. CAS 540, Auditing Accounting Estimates and Related Disclosures.
 - viii. CAS 700, Forming an Opinion and Reporting on Financial Statement.

PART IV – Enforcement actions imposed

9. In view of the Violation Events outlined above, the Firm’s inspection history 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:

⁴ 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 Management.

- a. The Firm is prohibited from accepting new moderate and high-risk⁵ reporting issuer audit engagements 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.
 - b. The Firm shall prohibit Partner A from acting as the engagement partner on any audits of new reporting issuer engagements, and from acting as the engagement partner on any reporting issuer engagement for which Partner A did not sign the audit report in the previous year.
 - c. The Firm shall be publicly censured.⁶
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) appointment of an external professional to act as the engagement quality reviewer for the Firm's existing moderate and high risk reporting issuers; ii) engagement of an external party to provide professional education and training to all reporting issuer assurance partners and staff; iii) completion of a root cause analysis; iv) development and implementation of an audit quality action plan; v) assessment of its portfolio of reporting issuer audit engagements in relation to specified criteria; and vi) testing of the operating effectiveness of a variety of the Firm's controls. The Firm is also subject to enhanced CPAB oversight in the form of quarterly meetings and will be required to pay a monetary assessment to recover CPAB's costs of enhanced regulatory oversight and monitoring 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 24, 2024.
 12. Each enforcement action imposed on the Firm shall continue until CPAB has carried out a follow-up inspection and the Firm has, to CPAB's satisfaction, implemented each of the enforcement actions imposed and has demonstrated a sustained improvement in audit quality.

⁵ In compliance with this restriction, the Firm has provided definitions of medium and high-risk Canadian reporting issuers that are acceptable to CPAB.

⁶ The censure will remain on the CPAB website for four years following the termination of the restriction noted in subparagraph 9a.