

*Canadian Public Accountability Board
And
Macias Gini & O’Connell 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 Macias Gini & O’Connell 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. All three files inspected contained significant inspection findings², each of which constitute a separate Violation Event³ (as defined in the Rules). As a result of these Violation Events and Macias Gini & O’Connell LLP’s significant inspection findings in the 2021 inspection, CPAB imposed a restriction on Macias Gini & O’Connell LLP’s practice under Rule 601(f), a requirement under Rule 601 (i) 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. Macias Gini & O’Connell LLP (the “Firm” or “MGO”) is a limited liability partnership headquartered in the city of Los Angeles with multiple locations in the United States. It has a public company audit practice, and at the time of CPAB’s 2023 inspection, the Firm audited fewer than 50 Canadian reporting issuers. The Firm does not have offices within Canada.

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. Since 2019, MGO was registered with CPAB pursuant to CPAB Rule 201.
5. In addition to registration with CPAB, the Firm is also registered with the Public Company Accounting Oversight Board (PCAOB) and audits approximately 20 US issuers.

PART III – Facts

6. MGO is subject to periodic inspections by CPAB. In 2021, CPAB inspected one file and identified two 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.
7. During the 2023 inspection, CPAB inspected three audit files and identified significant inspection findings in all three files. The 2023 inspection results indicated continued concerns over audit quality.
8. Each of the significant inspection findings identified during CPAB’s 2023 inspection, in relation to three audits of the financial statements for the year ended 2022, 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) and Public Company Accounting Oversight Board Auditing Standards (PCAOB AS) were breached:
 - i. CAS 220, Quality Control for an Audit of Financial statements.
 - ii. CAS 250, Consideration of Laws and Regulations 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 500, Audit Evidence.
 - vi. CAS 505, External Confirmations.
 - vii. CAS 540, Auditing Accounting Estimates and Related Disclosures.
 - viii. CAS 570, Going Concern.
 - ix. PCAOB AS 1105, Audit Evidence.
 - x. PCAOB AS 1201, Supervision of Audit Engagement.
 - xi. PCAOB AS 1305 Communications about Control Deficiencies in an Audit of Financial Statements.

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 and, if the audit report on the financial statements of a reporting issuer refers to generally accepted auditing standards other than those of Canada, the firm and the designated professionals of such firm shall comply with those auditing standards.

- xii. PCAOB AS 2110, Identifying and Assessing Risks of Material Misstatements.
- xiii. PCAOB AS 2301, The Auditor’s Responses to the Risks of Material Misstatement.
- xiv. PCAOB AS 2305, Substantive Analytical Procedures.
- xv. PCAOB AS 2310, The Confirmation Process.
- xvi. PCAOB AS 2315, Audit Sampling.
- xvii. PCAOB AS 2401, Consideration of Fraud in a Financial Statement Audit.
- xviii. PCAOB AS 2501, Auditing Accounting Estimates, Including Fair Value Measurements.
- xix. PCAOB AS 2510, Auditing Inventories.

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 medium and high-risk⁵ reporting issuer engagements including those resulting from initial public offerings, reverse takeovers or other transactions. 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 be publicly censured.⁶
 - c. The Firm shall pay a monetary assessment to recover CPAB’s costs of enhanced regulatory oversight and monitoring compliance with the enforcement action.
10. 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 April 29, 2024.
11. 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, 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.