

November 24, 2023

VIA EMAIL: consultation@cpab-ccrc.ca

Canadian Public Accountability Board

RE: Request for comment on the Canadian Public Accountability Board's ("CPAB") proposed rule changes

The Canadian Centre for Audit Quality (CCAQ) is pleased to respond to CPAB's request for input to inform CPAB's approach to disclosing the results of its oversight of participating audit firms that audit Canadian reporting issuers. Enhanced transparency promotes trust and confidence in the public company audit profession in Canada, and we support disclosures relating to CPAB's inspection process where it improves audit quality and is in the public interest. To achieve this, the disclosures must be consistent, meaningful, and relevant, based on a fair and transparent inspection process.

Disclosure-related rule changes - Individual firm inspection reports

To increase the level of transparency of the results of its regulatory assessments, CPAB has proposed to issue individual audit firm inspection reports for every audit firm that is inspected. At the same time, CPAB has stated that it will continue to ensure adherence to applicable laws, including consideration of different legal requirements across Canada and in other jurisdictions, and as a result, CPAB may adapt its approach based on jurisdictional differences.

In its September 29, 2021 letter to CPAB, the Quebec CPA Order concluded that the proposed disclosure of individual firm inspection results would be contrary to the Code des professions (the "*Code*") and the Cooperation Agreement between the Ordre des comptables professionnels agréés du Québec and CPAB. We understand that the inclusion of inspection results of audits conducted by Quebec public accounting permit holders in an individual firm inspection report would also be contrary to the *Code*.

Excluding certain audit firms and/or audit clients would result in inconsistent and incomplete disclosure, undermining confidence in CPAB's individual firm reports. The nature and extent of CPAB's review and the corresponding firm report could be misunderstood and would be potentially misleading, which could be amplified because the audit file selection is risk based and is not representative of the entire population of reporting issuer audits performed by the firm. In circumstances where a lack of disclosure is the result of the exclusion of an audit firm's Quebec inspection results and/or certain audit clients, stakeholders may incorrectly assume that those firms with little or no disclosure have better audit quality, when this may not be the case. Inconsistent disclosure could undermine confidence, create confusion in the inspection process and may not be aligned with CPAB's goal of improving audit quality through disclosure.

Accordingly, we believe that the disclosure of individual firm level inspection reports should only proceed when all reporting issuer audits that are inspected by CPAB, including Quebec-based audits, are included in the process.

Other disclosure-related changes

We agree with CPAB amending its rules to make mandatory the disclosure of reporting issuer-specific significant inspection findings to the reporting issuer's audit committee, as set out in the 2014 Protocol. This will enhance transparency with audit committees and assist them in assessing audit quality and in discharging their responsibilities.

Individual public inspection reports

The following reflect our comments should CPAB proceed with reporting individual firm-level inspection results.

If audit files are excluded from the individual firm reports, disclosure should be made of the number of files inspected that have been excluded and the reasons for such exclusion, if permissible by law.

CPAB has noted on its website that most significant findings require the audit firm to carry out additional audit procedures, and the remaining findings require firms to add evidence to the audit file to show they had obtained sufficient and appropriate audit evidence with respect to a major balance sheet item or transaction stream. In disclosing the nature of the significant findings, we believe that it would be appropriate to carry forward the categorization of findings between those that require the completion of additional audit procedures and those that require additional evidence or documentation be added to the audit file. This will provide the reader with additional context on significant findings. We also recommend that CPAB disclose, with equal prominence, the number of restatements arising from the significant findings in the individual firm inspection reports, or a statement that there were no restatements that resulted from the significant findings disclosed.

In the description of "How firms respond to CPAB findings", CPAB indicates that the audit firm carries out additional audit procedures to identify material errors that could require restatement of the reporting issuer's financial statements¹. This wording should be clarified to describe the auditor's role more appropriately. The auditor performs additional procedures to address significant inspection findings to support the auditor's report previously issued. In rare or unusual cases, the auditor's report may have to be modified or withdrawn because of the completion of additional procedures. Management and those charged with governance are responsible for determining whether a restatement of the reporting issuer's financial statements is necessary.

Unintended consequences

Based on feedback received in its previous consultation, CPAB has committed to monitoring the potential unintended consequence of reducing a public company's choice of auditors as audit firms may not be willing to accept the risk of auditing more complex reporting issuers or those operating in emerging industries given the new proposed disclosure rules.

We understand there are concerns that additional disclosure of firm inspection findings could have negative consequences on some audit firms' private company assurance practices. We encourage CPAB to continue to evaluate unintended consequences of additional disclosure, including availability

¹ Similar wording is used in footnote 4 to Appendix B – Sample individual firm inspection report - and on CPAB's website in the Engagement Findings Report section under the heading - Significant Inspection Findings.

of auditors and the potential impact on the attractiveness of the profession.

CPAB also notes that other jurisdictions such as the United Kingdom, the United States, and Australia have had disclosure of individual firm results in place for several years without experiencing any significant negative economic impacts. This comparison does not consider the differences in the scope of companies inspected in the United Kingdom, the different regulatory environment in the United States, and the current disclosure policy in Australia.

The United Kingdom's Financial Reporting Council (FRC) limits the scope for their audit quality reviews outside the London Stock Exchange to companies admitted for trading on AIM or NEX (other than the Main Board) above a certain market capitalization².

The United States does not have a venture exchange, where issuers on that exchange are excluded from certain governance and reporting requirements that are otherwise followed by reporting issuers, and therefore the results will not be directly comparable for those companies.

In Australia, the ASIC (Australian Securities & Investments Commission), as of this most recent inspection cycle, no longer discloses individual firm inspection reports, but rather "prepares a private and confidential report for the firm inspected describing the inspection process, observations and findings and suggested remedial actions"³. The ASIC will periodically publish the results of inspections in a public surveillance report; however, this report will not identify the firms or their clients when summarizing the key observations and findings in ASIC's inspection programme.

In comparing other jurisdictions that provide disclosures, CPAB should consider factors specific to the Canadian market.

CPAB's Engagement Findings Report process (EFR)

In response to previous comments received by CPAB indicating stakeholders would like more information on, and transparency in relation to CPAB's EFR process, CPAB added further information on this process to its website. It is in the public interest that the EFR process be robust, rigorous, and transparent so that significant inspection findings are developed, assessed, and reported based on a complete set of facts and circumstances and the conclusions reached are transparent.

We understand that the decisions made by the EFR decision-making panel are based on summary documents prepared by a CPAB inspection team that the firms are not provided with an opportunity to comment upon or respond to prior to EFR decision-making panel review. Firms are also not provided with the opportunity to attend an EFR decision-making panel meeting. Procedural fairness is essential when a significant finding is to be published in an individual firm inspection report.

Providing an opportunity for firm review of the documentation provided to the EFR decision-making panel and the ability to provide feedback on such documentation prior to the EFR decision-making panel meeting would promote a stronger indication of fairness and transparency of the process. A sufficient review period would be necessary for the firms to respond appropriately. If an audit firm

² Companies within the scope of FRC review are UK companies admitted for trading on AIM or NEX (other than the Main Board) with a market capitalisation of more than €200m, using the formula in MiFID II.

<https://www.frc.org.uk/library/supervision/audit-quality-review/audit-quality-review-overview>

³ <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/audit-inspection-and-surveillance-programs/>

disagrees with CPAB's assessment of a possible deficiency, there should be a clear, documented, and transparent process that allows the firm to ensure that all relevant facts and judgments have been presented to the EFR decision-making panel.

Review hearing process

In the event that a firm disagrees with the outcome of the inspection process, a firm should have the opportunity to present its position to a review hearing panel. Where there is a disagreement between the firm and CPAB, the escalation process should be clearly defined so that all relevant facts and judgments have been brought forth and considered by the review hearing panel before final determinations are made.

We appreciate the work done by CPAB on this important area and for the opportunity to comment on these proposals. If you have any questions or require additional information, please contact me at michael.walke@ccaq-ccqa.com.

Yours very truly,



M. C. Walke
CEO
Canadian Centre for Audit Quality

The Canadian Centre for Audit Quality (CCAQ) is an independent not-for-profit Canadian corporation dedicated to supporting Canadian audit firms and public accountants in fulfilling their public interest role, and investors and other stakeholders with public policy and public interest issues. The CCAQ's founding members are the seven largest Canadian independent registered CPA accounting firms.