

Investor Considerations on Audit Firm Tenure – 2026 Edition

Governance remains a focal point for responsible investors and governance activists in Canada. Increased scrutiny is being placed on issues such as board structure, director accountability, auditor independence, and shareholder rights. Today's responsible investors are not just evaluating governance, they are actively engaging with companies and boards to influence their key governance decisions. This engagement has become increasingly assertive, with investors challenging director elections, auditor reappointments for longer tenured auditors, and shareholder proposals to drive stronger governance outcomes and corporate accountability. Notably, shareholder scrutiny over the ratification of a long tenured auditor has increased in recent years, although opposition has since stabilized over the last proxy season.

Canadian Regulatory Perspectives

The Canadian securities regulators have not mandated auditor rotation based on tenure, indicating that they believe that tenure alone is not a defining factor for audit quality. Existing research has not established a definitive link between audit firm tenure and audit quality. This may be attributed to the robust regulatory safeguards in Canada including mandatory partner rotation, restrictions on non-audit services, adherence to national and international ethics standards and codes of professional conduct, firm-level quality management systems, and oversight by external regulators such as CPAB (Canadian Public Accountability Board) or provincial and territorial securities regulators such as the OSC (Ontario Securities Commission). In addition, there is a potential loss of institutional knowledge and other transitional challenges that can occur when audit firms are not ratified under mandatory firm rotation policies. Notably, both CPAB¹ and the PCAOB² (Public Company Accounting Oversight Board) highlight initial or first-year audit engagements as higher risk for significant inspection findings.

In place of mandatory audit firm rotation, an experienced audit committee that follows governance best practices is in the best position to assess the quality and independence of the external auditors. Regulators, such as CPAB³, have advocated for the periodic assessment of external auditors by audit committees through the use of Audit Quality Indicators⁴ (AQIs) and comprehensive reviews every five years in lieu of mandatory audit firm rotation⁵. The use of AQIs as a tool to enhance the decision-making process of audit committees is an initiative which has been advanced by other regulators, such as the

¹ CPAB notes that the rate of significant findings for new audit engagements is higher than that of tenured audit engagements. In 2024, the deficiency rate was 34% for initial audits compared to 21% for tenured audits. Please refer to the "[2024 Annual Report](#)" released in April 2025.

² In their Staff Update 2024, the PCAOB highlighted 'Initial audits by a successor auditor' as a target team focus. The target team is a group of inspectors who focus on emerging risks and issues. Please refer to the publication: "[Staff update on 2024 Inspection Activities](#)"

³ Please refer to the publication "Enhancing Audit Quality: Canadian Perspectives – Conclusions and Recommendations" jointly authored by CPA Canada and CPAB in May 2013.

⁴ AQIs provide in-depth information on multiple factors which influence audit quality, such as independence, client service, audit team experience, etc. In 2016 and 2017, CPAB conducted a pilot on the use of AQIs with 18 reporting issuers, their audit committees, management and external auditors. It was found that there was a significant variety in the AQIs selected by audit committees, and that the AQIs facilitated collaborative discussion with the various participants on improvements to audit quality.

Link: https://cpab-ccrc.ca/docs/default-source/thought-leadership-publications/2018-aqi-final-report-en.pdf?sfvrsn=5af68dba_12

⁵ Please note that CPA Canada, CPAB and the ICD (Institute of Corporate Directors), as recommended by the "Enhancing Audit Quality" initiative, have developed the "Periodic Comprehensive Review of the External Auditor – Tool for Audit Committees". This tool was first published in January 2014 and subsequently updated in September 2018. Other guidance and tools for audit committees are available on the CPA Canada website for CPA Canada members.

United Kingdom's FRC (Financial Reporting Council) and the United States' PCAOB, through targeted consultations and research⁶. For multi-jurisdictional filers, the PCAOB and the SEC (Securities and Exchange Commission) also actively monitor auditor independence without enforcing mandatory audit firm rotation.

The Role of the Audit Committee

The audit committee's direct oversight of the work of their external auditors means that they can provide a uniquely well-informed perspective on audit quality and independence. As an investor's expectations for transparency grow, boards and audit committees should enhance their disclosures regarding the auditor selection process and safeguards in place against auditor familiarity threats, allowing investors to make informed decisions. This can include outlining their auditor assessment process, the key practices employed in that process, the AQIs reviewed, and the rationale for auditor reappointment decisions. For investors who are concerned about auditor tenure, engaging directly with the audit committee can provide valuable insights which support more thoughtful voting decisions. This discussion could include a review of the AQIs, as well as the key objectives and risks the AQIs are designed to address. A clear understanding of the audit committee's role, the Canadian regulatory environment, and existing audit quality and independence safeguards will strengthen investor decision-making and shareholder engagement.

Research on Auditor Tenure

Research on the relationship between auditor tenure and audit quality is inconclusive. Most of the studies reviewed by the CCAQ identified no negative impact, or even a negative correlation, between longer auditor tenure and audit quality⁷.

The Auditor Independence Working Group⁸ noted that existing mechanisms, such as mandatory partner rotation and strong regulatory oversight bodies, already help mitigate familiarity risks. Moreover, frequent changes in audit firms can introduce transitional challenges, including the loss of institutional auditor knowledge, increased demands on management, and fee pressures that may compromise audit quality. These challenges can be particularly pronounced for companies operating in specialized industries or with global operations.

While auditor tenure and ratification were critical focus areas for investors in 2024, the conversation has shifted in 2025. Kingsdale Advisors, a leading advisor to public companies on governance matters in Canada, did not highlight tenure as a major concern this year⁹. Based on a review of recent management

⁶ Accountancy Europe (May 5, 2022). Audit Quality Indicators: a global overview of initiatives. Link: <https://accountancyeurope.eu/wp-content/uploads/2022/12/220401-Factsheet-Audit-Quality-Indicators.pdf?v1>

⁷ Please note that the CCAQ reviewed 27 studies published over a period of 11 years and across various countries and jurisdictions. We also reviewed research conducted by IFAC (International Federation of Accountants) and the AICPA (American Institute of Certified Public Accountants). An example of a study that concluded that longer auditor tenure improves audit quality include Rummell et al. (2019) in their study "Does Audit Firm Tenure Matter to Audit Committee Members? Evidence from an Accounting Dispute." Other studies that we reviewed, including a 2019 study by Kalanjati, D.S., Nasution, D., Jonnergård, K. and Sutedjo, S. (2019) studying "Auditor rotations and audit quality" in Indonesia, concluded that mandatory firm rotation could lead to negative audit quality outcomes.

⁸ Please refer to the publication "Enhancing Audit Quality: Canadian Perspectives – Conclusions and Recommendations" jointly authored by CPA Canada and CPAB in May 2013. The **Auditor Independence Working Group's mandate** was to review the relative benefits of the various alternatives proposed to address the perception of an institutional familiarity threat to independence in an audit relationship.

⁹ "Kingsdale Advisors 2025 Proxy Season Review", Kingsdale Advisors. Source: <https://www.kingsdaleadvisors.com/2025-Proxy-Season-Review>

information circulars published by the companies on the TSX 60 Index, the CCAQ has observed an increase in the depth and detail of disclosures by the audit committee, particularly regarding auditor assessment and ratification. This suggests that greater transparency and disclosure can enhance investor confidence and lead to more informed, supportive reactions to an audit committee's decisions regarding auditor ratification.

Conclusion

While stakeholders may consider various factors when evaluating an audit committee's decision to ratify the external auditor, it is most important to recognize that the audit committee's assessment is inherently multifaceted and cannot be distilled into a single metric, such as auditor tenure. Ultimately, the audit committee's role is to conduct a comprehensive review that reflects the full scope of its oversight responsibilities, including a nuanced evaluation that considers their external auditor's independence, continuity and audit quality. We believe that audit committees who utilize governance best practices, as outlined by Canadian regulators, in their assessment of the external auditor are utilizing measures that provide better safeguards against familiarity threats and promote higher audit quality than sole reliance on mandatory audit firm rotation.

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.