



September 30, 2021

Jeremy Justin
Chief Risk Officer and Vice President, Strategy, CPAB

Dear Mr. Justin:

Re: The Canadian Public Accountability Board seeks public input on regulatory disclosures

Thank you for the opportunity to provide input on CPAB's public consultation on regulatory disclosures. The Office of the Superintendent of Financial Institutions (OSFI) is Canada's prudential regulator and supervisor of federally regulated financial institutions (FRFIs) and pension plans. OSFI acts to protect depositors, policy holders, financial institution creditors and pension plan members while allowing financial institutions to compete and take reasonable risks. OSFI relies on institutions' external auditors for the fairness of the financial statements, and therefore highly values audit quality.

Although only some FRFIs are public issuers subject to audit file inspection by CPAB, OSFI's mandate includes monitoring and evaluating system-wide or sectoral developments that could negatively affect the financial condition of FRFIs. Given this system-wide lens, our interest in CPAB's regulatory disclosures extends beyond FRFIs to all Canadian public issuers. OSFI is mainly concerned with CPAB's public disclosure practices as they pertain to the Big 4 audit firms.

Overall, OSFI supports CPAB's proposed disclosure principles as they directly address key concepts that are important to OSFI, including enhancing audit quality, protecting the public interest and helping to enhance public confidence in financial reporting.

Furthermore, OSFI recommends CPAB make it mandatory for the external auditors of all Canadian reporting issuers to share the results of audit file inspections with their respective audit committees. OSFI believes audit file inspection results are essential information for the audit committee given its oversight function relating to the financial statements and the external audit thereof.

Lastly, OSFI recommends that CPAB disclose high-level inspection results by individual firm and enforcement actions in a timely manner, as such practices would align with CPAB's proposed disclosure principle of Public accountability for improved audit quality.

The annex to this letter includes our detailed responses to the questions in the consultative document.



If you wish to discuss the contents of this letter, Ms. Renée Chen, Managing Director, Accounting Policy Division or Mr. Javinder Sidhu, Director, Accounting Policy Division would be pleased to meet with you.

Yours truly,

A handwritten signature in black ink that reads "Ben Gully". The signature is written in a cursive, flowing style.

Ben Gully
Assistant Superintendent
Regulation Sector

Annex

Detailed Responses to the questions posed in CPAB's disclosures consultative document

1. Disclosure principles

a. Your comments on our proposed disclosure principles including any other principles we should consider.

OSFI supports CPAB's proposed disclosure principles and offers two suggested changes for clarity purposes.

- 1) Public accountability: OSFI suggests updating the wording of the principle to state explicitly what CPAB's focus on protecting the investing public entails, namely holding Participating Audit Firms accountable for consistently high-quality audits of reporting issuers.
- 2) Cost vs. benefit: The consultative document noted that some potential changes to a disclosure practice could have directionally opposed impacts across the different proposed disclosure principles and therefore CPAB may need to evaluate the net benefit of any potential change to a disclosure practice. OSFI suggests that CPAB considers including this nuance within the explanation of the 'Cost vs. benefit principle.'

2. Communication to audit committees

- a. Should CPAB pursue amendment of our Rules to make the sharing of the results of individual audit file inspections with the audit committee (or others charged with governance if there is no audit committee) of that reporting issuer mandatory?**
- b. Should this sharing of information be mandatory for all reporting issuers? Why or why not?**

OSFI believes the results of individual audit file inspections should be shared with the audit committee (or those charged with governance if there is no audit committee) mandatorily for all reporting issuers. Doing so aligns with CPAB's disclosure principles of 'Improvement in audit quality', 'Public accountability' and 'Timeliness.'

As highlighted in the consultation document, the audit committee plays an important role in the oversight of the external auditor. OSFI views the results of individual audit file inspections as essential information to support the audit committee's oversight of the external auditor. Sharing the inspection results with the audit committee (or those charged with governance) will play an important role to improve audit quality and to enhance the protection of stakeholders.

3. **Disclosure of the results of CPAB's regulatory oversight activities**
 - a. **Should CPAB pursue the amendment of our Rules to allow for disclosure of findings by individual firm? Please explain.**
 - b. **What type of information would be most useful and how would this information be used?**
 - c. **Should these disclosures be provided for all inspections of Participating Audit Firms?**

OSFI agrees with CPAB's views that public disclosure of inspection findings for all Participating Audit Firms would increase public accountability for improved audit quality. OSFI believes it would be helpful context to confirm whether other jurisdictions that have disclosed this information have seen reductions in inspection findings as a result. In terms of the nature of disclosures, information such as Participating Audit Firm name, the number of files reviewed, the number of files with significant inspection findings, and an explanation of the results of CPAB's review of the quality management systems of each individual firm would be most useful for stakeholders. However, OSFI recommends that CPAB avoid public disclosure of individual firms' private inspection reports as such reports may be too technical and may not be well understood by stakeholders.

OSFI believes the benefit of increased transparency of information on findings by individual audit firm outweighs the negative impacts to CPAB's costs and timeliness of inspection reports for the Canadian ecosystem as a whole. To address the initial incremental costs and impact to timeliness, we support a phased approach to the public release of findings by audit firm.

If CPAB moves forward with this disclosure, it's important that readers understand CPAB's process in order to avoid misinterpretation. For example, the incremental disclosures should be accompanied by a brief explanation, in plain language, of CPAB's methodology for file selection, the implications to the coverage of audit files for Participating Audit Firms across the population of reporting issuers, the definitions of the three types of enforcement actions and the impact on deficiency rates on firms with fewer reporting issuers.

In order for CPAB to achieve its goal of increased public accountability for improved audit quality, the timeliness of such disclosure is important for protecting the investing public. Disclosure in CPAB's annual public inspections report may not be timely for inspections performed at the beginning of the year. CPAB should consider a disclosure frequency greater than an annual basis (i.e., semi-annual or quarterly).

4. **Disclosures related to CPAB's enforcement actions**
 - a. **How would you use information about CPAB's enforcement actions?**
 - b. **Should CPAB's disclosures about enforcement actions apply to all enforcement actions or be focused on specific (categories/types) breaches of professional standards?**

Disclosure of CPAB's enforcement actions will help OSFI monitor the severity of audit firms' audit quality deficiencies. Therefore, OSFI believes all enforcement actions should be disclosed.

5. **Any other comments about potential unintended consequences or other costs from changes to CPAB's disclosures.**

No comment.

6. **Other areas where CPAB should consider changes to our disclosures.**

No comment.