

# CPAB's **disclosure** recommendations

September **2022**

## CPAB’s disclosure recommendations

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### Who we are

As Canada’s public company audit regulator, the Canadian Public Accountability Board (CPAB) oversees public accounting firms that audit Canadian reporting issuers. We promote audit quality through proactive regulation, robust audit assessments, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting. Our work includes assessments of audit files and the system of quality management of public company audit firms.

### Executive summary

As a result of feedback received from a public consultation on our approach to disclosures in 2021, CPAB intends to make significant changes to the information we disclose about the results of our oversight of participating audit firms<sup>1</sup> (firms) that audit Canadian reporting issuers.

CPAB intends to change our approach to information disclosure in three areas:

- (1) Disclosure related to CPAB’s enforcement actions.
- (2) Communications to audit committees.
- (3) Disclosure of the results of our regulatory assessments.

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<sup>1</sup> Participating audit firm means a public accounting firm that has entered into a Participation Agreement with CPAB and is in good standing.

Planned changes include:

- Publish information about significant enforcement actions<sup>2</sup> imposed on participating audit firms.
- Make the disclosure of the results of CPAB audit file inspections to audit committees mandatory.
- Provide additional firm-specific information about the results of our inspections.
- Make public the details of CPAB recommendations where firms have not addressed concerns to our satisfaction.

These changes will be phased in over time with initial changes starting in 2023. Completion of disclosure changes in the second phase are dependent on amendments to applicable rules and provincial legislation.

CPAB has received feedback that changes to the information we disclose may conflict with the legal framework in Quebec, specifically the professional oversight rules provided in the *Professional Code*, the *Quebec Chartered Professional Accountants Act* and the protection of professional secrecy, as enshrined under section 9 of the *Quebec Charter of Human Rights and Freedoms*. We are working to resolve this matter through discussions, legal analysis and considerations of alternative approaches. CPAB's objective is to have a uniform approach across all of the provinces and territories in Canada. However, differences in provincial and /or territorial legal frameworks may result in variations in our approach across Canada.

## Background

Over the past decade CPAB has been taking steps to increase public transparency and accountability related to our regulatory assessments. This includes introducing the voluntary [Protocol for Audit Firm Communication of CPAB Inspection Findings](#) in 2014 as well as increased disclosure of enforcement actions in recent years.

## Disclosures consultation

To help inform the evolution of our approach to disclosures, CPAB conducted a [public consultation](#) in 2021 to gather stakeholder input and invite a dialogue. This document outlines how CPAB intends to evolve our approach to disclosing the results of our regulatory assessments based on the feedback received.

## Feedback received

Through our 2021 public disclosures consultation CPAB heard from over 100 stakeholders via our online survey, comment letters and one-on-one interviews. A detailed summary of the feedback received can be found on the disclosures [project page on CPAB's website](#).

Feedback was shared by a wide range of stakeholders, including audit committee chairs and members, investors, audit firm partners and professionals, as well as regulators and public company management. The views of these stakeholders

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<sup>2</sup> Significant enforcement actions include

- I. Termination of one or more audit engagements (601 (d)).
- II. Prohibition from accepting new reporting issuer clients (601(f)).
- III. Prohibition from assigning a designated professional to audits of reporting issuers (601(g)).
- IV. Sanctions imposed under Rule 601 for breaching an existing requirement, restriction, or sanction.
- V. Termination as a participating audit firm.

provided CPAB with strong perspectives and considerations as we develop proposed changes to our approach to disclosures.

The majority of stakeholders said CPAB should significantly increase or make targeted improvements to how we disclose our regulatory assessments. Specifically, audit committee members expressed that additional information on the results of CPAB's oversight would be beneficial in supporting their oversight of auditors. Investors and other commentators outlined that increased disclosures would increase public accountability and pressure on firms to improve audit quality.

## CPAB's response to feedback

Planned changes to the information we disclose are based on the disclosure principles outlined in the [2021 disclosures consultation](#). Specifically:

- Improvement in audit quality.
- Timeliness of CPAB reporting and remediation of audit deficiencies.
- Public accountability.
- Cost vs. benefit.

Stakeholders indicated that, in addition to the disclosure principles outlined in the consultation paper, consideration should be given to whether planned disclosures:

- Enhance CPAB's protection of the investing public.
- Are transparent, meaningful and relevant.
- Are consistent with disclosures made by other regulators internationally<sup>3</sup>.
- Protect the confidentiality of reporting issuers.

CPAB has incorporated these principles and considerations in our planned changes.

## CPAB's planned changes to how we disclose the results of our regulatory assessments

Planned changes fall into two groups: near-term changes and changes that would be implemented in a second phase.

Changes that do not require amendments to CPAB's [Rules](#) or legislation can be accomplished in the near term. Where amendments are required, proposed changes will take additional time to implement as they will involve securing the agreement of multiple regulators and will involve legislative authorities with oversight of CPAB's rules and legislation. CPAB will continue disclosing enforcement actions arising from investigations.

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<sup>3</sup> Refer to Appendix A for additional information on how CPAB's planned changes to disclosures compare to other international regulators.

### Phase one: near-term changes

Disclose significant enforcement actions imposed on a firm.

Disclose recommendations which were included in a firm report but not addressed by the firm.

### Phase two: rule / legislative changes required

Mandatory disclosure of issuer-specific significant inspection findings to their audit committee.

Individual public inspection reports for each audit firm.

### Applicable legislation

The information that CPAB discloses is impacted by a combination of our rules, provincial legislation (including securities legislation) and rules applicable to professional accountants and other professions.

Examples of some rules and legislation include:

- Canadian Public Accountability Board Act (Ontario) (CPAB Act).
- National Instrument 52-108 – Auditor Oversight (applicable in each of the provinces and territories across Canada).
- Securities Acts in each of the provinces and territories across Canada.
- Codes of Professional Conduct applicable to Chartered Professional Accountants in each of the provinces and territories across Canada.
- Chartered Professional Accountants Act (in each of the provinces and territories across Canada).
- Professional Code (Quebec).
- Act Respecting the Regulation of the Financial Sector (Quebec).
- Charter of Human Rights and Freedoms (Quebec).

Any changes to applicable Rules and legislation will be subject to a process which may include a public consultation process and/or approval by the relevant regulator or government body.

CPAB has received feedback through the 2021 consultation that changes to the information we disclose (specifically disclosures related to CPAB's enforcement actions and the results of our regulatory assessments) may conflict with the legal framework in Quebec, specifically the professional oversight rules provided in the *Professional Code*, the *Quebec Chartered Professional Accountants Act* and the protection of professional secrecy, as enshrined under section 9 of the *Quebec Charter of Human Rights and Freedoms*. We are working to resolve this matter through discussions, legal analysis and considerations of alternative approaches. CPAB's objective is to have a uniform approach across all of the provinces and territories in Canada. However, differences in provincial legal frameworks may result in some differences in our approach across Canada.

## Phase one: near-term changes

### Disclosures related to CPAB's enforcement actions<sup>4</sup>

Disclose significant enforcement actions imposed on a firm.

This approach to disclosing enforcement actions was informed by stakeholder feedback. Eighty-five per cent of respondents to our survey supported some level of increased disclosure compared to CPAB's current approach where we aggregate enforcement actions in our annual report.

Respondents were most supportive of CPAB disclosing the most significant enforcement actions taken. The large majority of respondents support disclosing the termination of a firm's ability to conduct public company audits or restrictions on a firm's auditing practice.

#### *Evaluation of disclosure principles*

Disclosure principle	Evaluation
<b>Improvement in audit quality</b>	CPAB believes we will see an improvement in audit quality as firms will be motivated to avoid receiving a published enforcement action and such disclosure will provide examples of situations to avoid.  Additional public information on enforcement actions will be useful to audit committees in their auditor oversight.
<b>Timeliness of CPAB reporting and remediation of audit deficiencies</b>	Publication of enforcement actions will occur once they are effective, the timing of which could be delayed if firms seek to challenge the action through a review proceeding. We believe a balance between timely reporting and due process can be established.
<b>Public accountability</b>	Increased disclosure of enforcement actions will directly increase public accountability by: <ul style="list-style-type: none"> <li>• Providing the public with relevant information on significant enforcement actions and the results of CPAB investigations involving serious misconduct.</li> <li>• Allowing other external bodies to monitor the severity of audit quality deficiencies across firms.</li> </ul>
<b>Cost vs. benefit</b>	Public disclosure of enforcement actions could lead to an increase in operational costs related to the monitoring of firms' compliance with imposed actions and potential increase in the number of petitions for review proceedings by firms.

<sup>4</sup> Enforcement actions are defined as requirements, restrictions and sanctions outlined in Section 601 of CPAB's Rules or a formal undertaking between CPAB and a firm whereby the firm agrees to take remedial action customized to address the deficiencies and risks identified during an inspection or investigation.

Disclosure principle	Evaluation
	Review proceeding costs incurred by CPAB may be recovered from a firm if the review panel determines CPAB's position with respect to the firm and enforcement actions imposed are appropriate.

### *How will we implement this change?*

CPAB's Rules, specifically Rule 601 (h), provide CPAB with the discretion to publicly disclose enforcement actions imposed on a firm if doing so is viewed to be in the public interest.

When disclosing enforcement actions, CPAB intends to ensure it has the discretion to not publish information that might identify a reporting issuer.

Information explaining the disclosure process will be posted on our website.

CPAB has prepared an illustrative enforcement action disclosure, which can be found in Appendix B.

## **Disclosing the results of CPAB's regulatory oversight activities**

### **CPAB's planned near-term changes to disclosure of regulatory oversight activities:**

Disclose recommendations which were included in a firm report but not addressed by the firm.

Under Rule 416, CPAB has the power to disclose weaknesses, deficiencies, or recommendations which were included in a firm report but not addressed within 180 days<sup>5</sup> of issuance of a final inspection report. As part of the consultation process, stakeholders indicated that this would be relevant information for the public to be aware of to assess audit quality at firms, particularly for the most significant weaknesses, deficiencies or recommendations.

### *Evaluation of disclosure principles*

Disclosure principle	Evaluation
<b>Improvement in audit quality</b>	CPAB believes that the deterrent effect of the disclosure of significant recommendations will lead to an improvement in audit quality. This is because firms will be motivated to address recommendations in a timely manner to avoid the negative impact of public disclosure.

<sup>5</sup> A longer or shorter period of time may be provided where appropriate.

	Additional public information on significant weaknesses or recommendations will be useful to audit committees in their auditor oversight.
<b>Timeliness of CPAB reporting and remediation of audit deficiencies</b>	<p>CPAB expects this will have a positive impact on the remediation of audit deficiencies as the potential for public disclosure will encourage firms to proactively respond to recommendations.</p> <p>The timing of CPAB reporting of recommendations to firms should not be impacted given there is no change to the established process for such recommendations.</p>
<b>Public accountability</b>	Disclosure of significant recommendations will directly increase public accountability by providing the public with relevant information on recommendations that have not been addressed by firms. This allows investors and other stakeholders to assess and monitor factors that would impact audit quality at those firms.
<b>Cost vs. benefit</b>	<p>CPAB anticipates cost increases associated with additional operational and potentially legal costs for CPAB and firms. For example, firms can request a review proceeding prior to information being disclosed under Rule 416. As a result, both CPAB and the firm may incur additional legal costs.</p> <p>Ultimately, CPAB has assessed that, on balance, this planned change provides a net benefit by increasing public accountability and transparency around recommendations that have not yet been addressed by firms.</p>

### *How will we implement this change?*

If a firm does not address a recommendation on a timely basis, we will publish the unfulfilled recommendation and the fact that it was not complied with.

Information regarding this process will be provided on our website. CPAB has prepared an illustrative disclosure for an unfulfilled recommendation, which can be found in Appendix C.

### **Planned timing for near-term changes**

The disclosure of enforcement actions and unfulfilled recommendations are authorized under CPAB Rules 601 (h) and 416. CPAB began disclosing enforcement actions arising from investigations in 2021 and will continue this practice for future investigations.

CPAB will implement near-term changes in January 2023 with reporting on actions arising from the 2022 regulatory assessments.



## Phase two: rule / legislative changes required

### Communication to audit committees

#### CPAB’s planned changes to communication with audit committees:

Introduce mandatory disclosure of reporting issuer-specific significant inspection findings to the reporting issuer’s audit committee.

#### *Respondent feedback*

In 2014 CPAB implemented the [Protocol for Audit Firm Communication of CPAB Inspection Findings](#) (Protocol). Firms that voluntarily participate in the Protocol share significant file-specific inspections findings with their reporting issuers’ audit committees. In 2021, 36 of the 38 files with significant findings were shared by firms with relevant audit committees under the Protocol (2020: findings shared with 24 of 35 reporting issuer audit committees).

Over 85 per cent of respondents to CPAB’s consultation paper supported mandatory sharing of individual audit file inspection results with the respective audit committee on the basis that this information supports the audit committee’s oversight of their auditor. Audit committee chairs themselves were most supportive of this, with 100 per cent of respondents indicating it should be mandatory for all reporting issuers.

Approximately 12 per cent of respondents, including some firm professionals and investors, felt that a sufficient number of firms already participate in the voluntary protocol, making it unnecessary to make the disclosure mandatory.

The role of the audit committee is very important to a quality audit and providing this information to all audit committees supports the audit committee’s effectiveness.

#### *Evaluation of disclosure principles*

Disclosure principle	Evaluation
<b>Improvement in audit quality</b>	Disclosing significant findings to audit committees will improve audit committee oversight as it enables discussions regarding audit quality with firms.
<b>Timeliness of CPAB reporting and remediation of audit deficiencies</b>	Many firms already disclose significant inspection findings to a reporting issuer’s audit committee through the voluntary Protocol which has been in place since 2014. During this time there has not been any significant impacts on the timing or remediation of CPAB’s inspection findings.
<b>Public accountability</b>	Audit committees will have more informed discussions with firms regarding the results of CPAB’s oversight activities.  CPAB considered whether this change should apply to only TSX-listed companies. We determined that the disclosure of significant inspection findings to a reporting issuer’s

	audit committee was relevant to all reporting issuers. Reporting issuers listed on exchanges other than the TSX make up a significant proportion of CPAB's significant inspection findings. In 2021, 47 per cent of inspections of reporting issuers on exchanges other than the TSX had significant findings compared to 10 per cent for TSX listed reporting issuers.
<b>Cost vs. benefit</b>	<p>CPAB does not expect these changes to increase costs to CPAB or firms. Under mandatory audit committee disclosure, firms will share information that is already available to most reporting issuer audit committees.</p> <p>Many firms already follow the voluntary Protocol and no significant financial impacts have been identified.</p>

### *How will we implement this change?*

CPAB will work with the provincial securities commissions and other parties to amend our rules and legislation to allow for mandatory disclosure of reporting issuer-specific significant inspection findings to their audit committees.

In the meantime, firms already committed to the Protocol will continue to share inspection findings with their audit committees. CPAB encourages other firms to sign on to the Protocol in preparation for mandatory disclosure and also encourages audit committees to have discussions with their auditors to understand if they are participating in the Protocol.

A list of firms participating in the Protocol will continue to be available on CPAB's website. In addition, beginning in the first quarter of 2023 and until the Protocol becomes mandatory, CPAB will also publish a list of firms that are not participating in the Protocol.

Once mandatory, firms will be required to follow the process outlined in the *Protocol* which includes:

In the event that CPAB has inspected the audit file of a Reporting Issuer, the firm will be required to provide the audit committee with the following information:

- (i) A description of the focus areas selected for inspection by CPAB.
- (ii) An indication of whether there are any significant inspection findings
- (iii) Any significant inspection findings as reported by CPAB per CPAB's Engagement Findings Report (EFR) including a description of actions taken by the firm in response to the findings and CPAB's disposition.

A copy of this communication will concurrently be provided to CPAB by the firm.

The audit committee chair will have the discretion to meet with CPAB, or invite CPAB to an audit committee meeting, to discuss inspection findings.

An example of an issuer-specific inspection finding that would be disclosed to a reporting issuer's audit committee is provided in Appendix D.

## Disclosing the results of CPAB’s regulatory assessments

### CPAB’s planned changes to disclosure of regulatory assessments:

Issue a condensed individual public inspection report for each audit firm inspected by CPAB.

### Respondent feedback

There is broad support among CPAB’s surveyed stakeholders to provide more information regarding regulatory assessments. Over 60 per cent of respondents supported CPAB publicly disclosing additional information, and another 12 per cent indicated they would support increased disclosures if there was no significant impact on the cost or timeliness of CPAB’s work. Audit committee members had the highest level of support with 77 per cent supporting public disclosure. Seventy-one per cent of investors were supportive and 63 per cent of firm respondents were supportive. Some of these respondents noted their support was dependent on there being no significant impact on the cost or timeliness of CPAB’s work.

Respondents supporting additional disclosure noted:

- Understanding the inspection results of each firm is important to supporting the oversight role of the audit committee.
- Information on firm inspection results could be considered material to the capital markets.

While many respondents were supportive, several respondents noted there is risk that the information could be misinterpreted. Respondents also commented that CPAB should ensure that reporting issuer-specific information remains confidential.

For more information on the respondent feedback on disclosing results of CPAB’s regulatory oversight activities, refer to the feedback summary on our disclosures [project page](#) on CPAB’s website.

### Evaluation of disclosure principles

Disclosure principle	Evaluation
<b>Improvement in audit quality</b>	It is CPAB’s view that increased public disclosure will increase accountability for audit quality.
<b>Timeliness of CPAB reporting and remediation of audit deficiencies</b>	We are introducing a new step in our report preparation process, and therefore expect reports will take longer to complete.  CPAB plans to adhere to a defined schedule for each step of the inspection process and is developing condensed, fact-based reports for each firm. This will facilitate consistency in the nature of information disclosed for each firm as well as assist in streamlining the preparation of each report for public release.

Disclosure principle	Evaluation
<p><b>Public accountability</b></p>	<p>Stakeholders will have more information regarding the results of CPAB’s regulatory oversight activities, which will directly increase public accountability to improve audit quality.</p> <p>By providing specific and relevant information on our inspection findings, CPAB is facilitating public accountability of firms and our processes.</p>
<p><b>Cost vs. benefit</b></p>	<p>Public disclosure of firm-specific significant inspection findings will increase CPAB’s costs. Additional resources will be required to prepare public inspection reports for each firm.</p> <p>We believe, on balance, that increased access to information, and the associated increase in accountability of firms, provides benefits outweighing the additional operational costs that are expected to be incurred by CPAB.</p>

#### Other considerations

Some respondents did express concern that individual public inspection reports could have the following impacts:

- (i) Reduce audit competition and increase audit concentration as firms may be reticent to audit reporting issuers.
- (ii) Create difficulties for reporting issuers in more complex industries (e.g., crypto companies, cannabis companies) who are trying to find auditors where there have been historically higher inspection findings.
- (iii) A firm’s stakeholders may not understand CPAB’s risk-based selection process for audit file inspections and therefore could inappropriately assess a firm’s overall audit quality based on a single or limited data point.

CPAB has considered these concerns and will mitigate these risks by taking the following actions:

- (i) In each report, explain the regulatory oversight process, especially CPAB’s risk-based approach, limited sample size and what our findings are intended to convey.
- (ii) Provide details on CPAB’s website regarding our inspection process, the regulatory review process and enforcement action terminology.
- (iii) Ensure inspection reports focus on the facts and provide appropriate background to put the findings into context. This includes:
  - a. Providing summary information on the size and scope of each firm’s reporting issuer audit practice to allow a reader to place the report findings in the context of a firm’s overall scope of business.
  - b. Providing the number of files inspected by CPAB, number of files with significant inspection findings and avoiding the use of any percentages that could be misinterpreted.
- (iv) Continue to provide auditors and audit committees with specific information on recurring inspection findings in emerging industries as well as examples of good practices to support strengthened audits in these industries.

#### **How will we implement this change?**

CPAB will work with the securities commissions and other parties to amend our rules and legislation as required. Throughout the rule/legislative change process CPAB will consult, as appropriate, with various stakeholders.

Once implemented, each year CPAB will publish fact-based individual public inspection reports for each firm inspected by CPAB. In order to address concerns related to maintaining confidentiality of reporting-issuer specific information, CPAB intends to ensure that it has the discretion to not publish an individual public inspection report in the event that it is possible that a reader might identify a reporting issuer. We expect this will be limited to firms with a very small number of reporting issuer audits.

CPAB has prepared a sample public inspection report outlining the extent of disclosures of inspection results that will be provided on an individual firm basis. Refer to Appendix E for this example report.

CPAB will prepare a public document advising how firms can use the information included in the public inspection reports. This is to ensure that any references to these reports by parties other than CPAB is not misleading to or misunderstood by the investing public.

### **Planned timing for changes in phase two**

Implementation of phase two will require changes to CPAB's Rules (including Rules 413 and 417) and legislation (*CPAB Act* as well potential changes to legislation in Quebec). Any changes to the applicable rules and legislation will be subject to a process which may include additional public consultation and/or approval by the relevant regulator(s) or government body(ies).

In addition to the applicable rules and legislation, CPAB has agreements and memoranda of understanding with the provincial and territorial securities commissions and provincial Chartered Professional Accountant (CPA) bodies which impact how we work together and facilitate information sharing.

CPAB will begin the rule and legislative change process in the fourth quarter of 2022 and expects changes could be phased in over time depending on feedback received and the complexity of required changes.

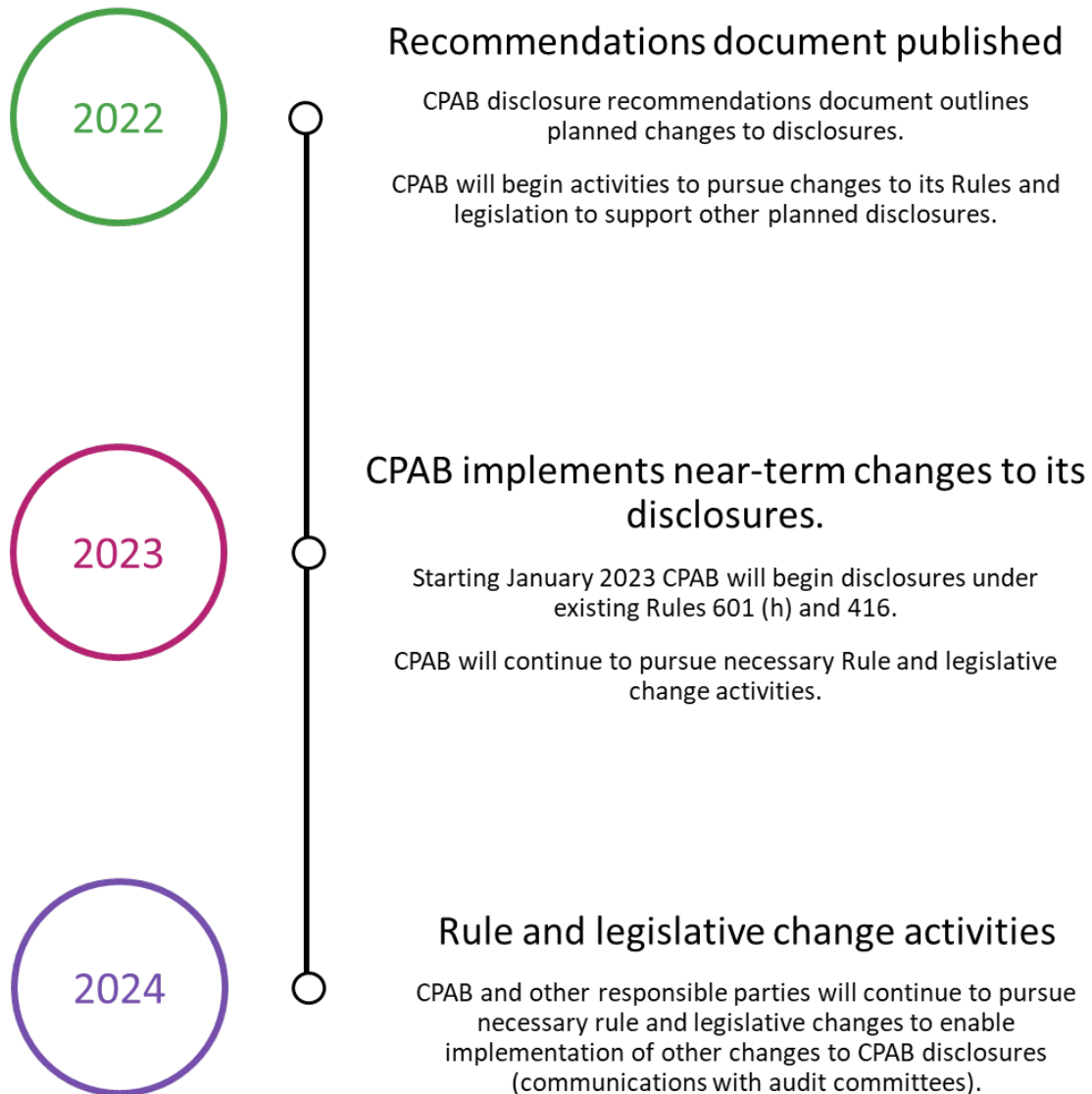
CPAB is committed to implementing the changes to our public disclosures in a timely manner as outlined below and will provide ongoing updates related to the status of this project.

## CPAB’s disclosure timeline

CPAB plans to implement near-term changes to how we disclose information in January 2023.

Changes that require amendments to our Rules and legislation require CPAB to consult with and engage several stakeholders. As a result, these changes will take place over a multi-year period.

If you have any questions regarding CPAB’s disclosures project, please contact us at [Consultation@cpab-ccrc.ca](mailto:Consultation@cpab-ccrc.ca).



## Appendices

### Appendix A – Comparison to other international audit regulators

Area of disclosure	CPAB's planned disclosures	Other international audit regulators
Communications to audit committees	Mandatory disclosure of reporting issuer-specific significant inspection findings to their audit committees.	File specific inspection findings are reported to audit committees in the United Kingdom. Other audit regulators, including Australia, are considering making changes to report this information in the future.
Disclosures related to CPAB's enforcement actions	Disclosure of significant enforcement actions.	Most international regulators publicly disclose information related to enforcement actions taken.  As outlined in the International Forum of Independent Audit Regulators (IFIAR) 2018 Survey of Enforcement Regimes, only 5 per cent of respondents reported that their enforcement matters were always non-public.
Disclosure of the results of our regulatory oversight activities	Disclosure of significant recommendations which were included in a firm report but not implemented.	As it relates to quality control inspection findings, 46 IFIAR <sup>6</sup> members issue public reports. Eleven of those regulators identify the results by individual firm.
	Individual public inspection reports for each firm.	The approach of publishing individual public inspection reports for each firm is consistent with current approaches taken by many other audit regulators including those in Australia, the United Kingdom and the United States.  Forty-three members of IFIAR report engagement inspections publicly, of those 9 identify individual firms.

<sup>6</sup> Data related to the disclosure of regulatory oversight activities was leveraged from IFIAR's [2021 Survey of Inspection Findings](#). IFIAR is a membership organization consisting of 54 independent audit regulators.

## Appendix B – Illustrative disclosure: enforcement action

*Canadian Public Accountability Board (“CPAB” or the “Board”)  
And  
Firm X (the “Firm”)*

### Part I – Preamble

1. Members of CPAB’s staff conducted an inspection of six reporting issuer<sup>7</sup> (RI) audit files in 2021, pursuant to Section 400 of the Rules of the Canadian Public Accountability Board (CPAB) (the “Rules”), as authorized by the Canadian Public Accountability Board Act, R.S.O. 2006, C. C-33 (the “Act”). Five of the files inspected contained significant findings, each of which constitute separate violation events (as defined in the Rules). As a result of these violation events, the firm’s history of elevated inspection findings, and to protect the investing public, CPAB has imposed restrictions on the firm’s practice under Rule 601(f) as well as requirements under Rule 601(a), (b), (e) and (i) and a sanction under Rule 601(h).

### PART II – The Parties

2. Firm X is a limited liability partnership located in Ontario. The firm is inspected on an annual basis and has nine audit partners in the public company practice which includes the audit of 155 Canadian Reporting Issuers.
3. Pursuant to National Instrument – 52-108 Auditor Oversight, auditors of reporting issuers are required to be registered with CPAB as a Participating Audit Firm (PAF). Only CPAB PAFs are authorized to audit financial statements issued by Canadian reporting issuers. Firm X was, at all relevant times, registered with CPAB pursuant to Rule 200.

### PART III – Facts

4. Firm X is subject to CPAB inspections on an annual basis and has had a high level of significant findings over the past three years. Specifically, 83 percent of the files inspected during the last 3 inspections have had one or more significant findings. From 2019-2021 there were 18 significant findings over 15 files.
5. Concerns over the on-going high level of inspection findings remain despite enforcement actions having been imposed in 2020 requiring the firm to retain an independent monitor, conduct a portfolio assessment and review, implement in-flight reviews in specified industries, conduct additional mandatory professional education, and introduce enhanced regulatory monitoring. Enforcement actions had also been imposed in 2019 and did not lead to an improvement in the Firm’s inspection results.
6. Each of the significant findings from the 2021 inspection represent a breach of one or more professional standard over which CPAB has jurisdiction including the following:
  - Canadian Auditing Standard (CAS) 315, Identifying and Assessing the Risks of Material Misstatement
  - CAS 330, The Auditor’s Responses to Assessed Risks
  - CAS 500, Audit Evidence
  - CAS 200, Overall Objectives of the Independent Auditor in the Conduct of an Audit in Accordance with Canadian Auditing Standards
  - CAS 540, Auditing Accounting Estimates and Related Disclosures

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<sup>7</sup> A reporting issuer is generally a public entity in Canada with ongoing compliance and disclosure obligations.



- CAS 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- CAS 240, The Auditor's Responsibility Related to Fraud in an Audit of Financial Statements
- CAS 550, Related Parties

## Part IV – Restrictions imposed

7. In view of the facts outlined above, and to protect the interests of investors and further the public interest through the preparation of informative, accurate and independent audit reports, CPAB determines it appropriate to impose the following Restriction and Sanction:
  - a) *The Firm is prohibited from accepting new reporting issuer audit clients 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 be publicly censured, pursuant to section 601(h) of the Rules.*
8. In addition to the above enforcement actions, CPAB also required the firm to:
  - Continue to retain an independent monitor to review the firm's response to the issues identified by CPAB's inspection.
  - Implement an audit quality action plan.
  - Conduct a portfolio review and assessment.
  - Develop and implement a detailed resource budget and project plan.
  - Conduct additional professional education and training.
  - Conduct a cultural assessment.
  - Participate in enhanced regulatory monitoring.
9. In 2021, CPAB has determined that five separate Violation Events occurred and provided notice to Firm X of the proposed enforcement actions CPAB intended to impose under Rule 601. No petition for review was filed by the Firm during the 15-day period set out in Rule 603 and accordingly the enforcement actions imposed took effect on April 30, 2022.
10. 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 recommendation contained in the 2021 Inspection Report and has demonstrated a sustained improvement in audit quality.

## Appendix C – Illustrative disclosure: significant recommendation not addressed by firm

*The draft report below is provided to illustrate the disclosure of significant recommendations not addressed by a participating audit firm to CPAB's satisfaction.*

**November 30, 2022** – The following publication is made pursuant to CPAB Rule 416, which authorizes CPAB to make public on its website the relevant portions of a participating audit firm's final inspection report recommendations, with which the participating audit firm failed to comply to CPAB's satisfaction within 180 days.

This notice will remain public until Firm X provides CPAB with evidence of satisfactory implementation of the outstanding recommendations outlined herein.

On May 30, 2022, the Canadian Public Accountability Board (CPAB) issued its 2021 Inspection Report to Firm X setting out recommendations that were required to be implemented by the firm within 180 days. Firm X did not implement all of CPAB's recommendations as required to CPAB's satisfaction. As of November 30<sup>th</sup>, 2022, the following CPAB recommendations were not implemented to CPAB's satisfaction and continue to remain outstanding as of the date of this publication:

### Human Resources

1. We recommend the firm evaluate the improvements necessary to the firm's policies and procedures as follows:
  - Partner workload and partner involvement: the firm should develop an appropriate plan to allocate partners and staff with the right skills and experience to the appropriate audit engagements. In addition, the firm should continue to monitor and assess partner workloads to ensure audit partners have sufficient time and the appropriate resources to support their role on the audit and further the quality culture throughout the firm.
  - Evaluate the budgeting of audit hours required to service the firm's anticipated portfolio of audit clients by location and resource level, including experts, to identify and resolve resource shortfalls at the firm level on a timely basis.
  - Evaluate the challenge of audit hours forecasted by engagement teams, including comparison to prior year actuals adjusted for anticipated changes to identify and resolve shortfalls at the engagement level on a timely basis. Evaluate how the firm monitors individual workload assignments (at all levels, including experts) for changes in chargeable and non-chargeable responsibilities throughout the year, including escalation to leadership, where appropriate.
  - Evaluate how the firm defines, proactively monitors, and responds to excessive hours (at all levels, including experts) throughout the year, including escalation to leadership, where appropriate.

## Appendix D – Illustrative disclosure to audit committee: reporting issuer-specific significant inspection findings

The draft report below is provided to illustrate an issuer-specific inspection finding that would be disclosed to a reporting issuer’s audit committee if the Protocol was mandatory.

### AUDIT ENGAGEMENT PROFILE

Firm Name: X LLP	Office Location: xxx
Reporting Issuer: ABC Corporation	Materiality: \$2 million
Year End: December 31, 20XX	

### AUDIT ENGAGEMENT TEAM

Engagement Leader: xxx	EQCR: xxx
Engagement Mgr(s): xxx	Other Audit Partner(s): xxx

### INSPECTION FOCUS AREAS & FINDINGS

FOCUS AREAS	# SIGNIFICANT INSPECTION FINDINGS
1. Revenue and receivables	0
2. Business combination – acquisition of DEF Ltd. and impairment of goodwill	1
3. Impairment of long-lived assets	0

**Note:** CPAB applies a risk-based approach in carrying out its mandate, and therefore does not review every aspect of an audit engagement selected for inspection. The absence of significant findings in CPAB’s inspection of an audit file should not be interpreted to mean that all aspects of the audit were fully compliant with professional standards, or that the reporting issuer’s financial statements have been prepared in accordance with the applicable accounting standards.

CPAB is available, upon request, to meet with the audit committee together with the firm to discuss the results of this file inspection.

#### **SECTION 1: SIGNIFICANT INSPECTION FINDINGS (EFR 1s)**

A significant inspection finding identified by CPAB 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 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. CPAB requires the firm to respond in writing to all significant inspection findings.

In accordance with the CPAB process for firm communication of CPAB inspection findings, all significant inspection findings will be communicated to audit committees by the firm.

**1.1 TOPIC: Business combination - acquisition of DEF Ltd. and goodwill impairment at year-end**

**Finding:** On July 23, 20xx, the Company closed its acquisition of DEF Ltd. for total consideration of \$350 million of which \$50 million was recorded to goodwill. At year-end, the Company tested goodwill for impairment and recorded an impairment charge of \$40 million. Sufficient appropriate audit evidence was not obtained to support the following:

- The Share Purchase Agreement listed intellectual property in the form of trade names and trademarks, patents and patents applications, among others, which were not assessed for existence and recognition at acquisition.
- The reasonableness of certain key inputs and assumptions used in the intangible assets' valuation models at acquisition, such as the estimated lives, royalty rate, customer revenue projections, and contributory asset charges.
- The inputs (discount rate and terminal value multiple) included in the Discounted Cash Flow model used to determine the recoverable amount of the Cash Generating Unit at year-end and the resulting impairment charge recorded in the financial statements.

As a result of the above, additional audit procedures are required to support that (i) the fair value of the intangible assets and resulting goodwill at acquisition, and (ii) the recoverable amount of DEF Ltd. at year-end and resulting impairment charge, are not materially misstated.

**Firm Response:** The engagement team will perform additional audit procedures and add the related working papers and supporting evidence, currently dated, to the 20xx audit file. These will include:

- Review and test management's analysis of the Share Purchase Agreement to determine whether there are additional intangible assets that should have been recognized at acquisition. If additional intangible assets are identified, we will perform procedures to ascertain their existence and valuation at acquisition date.
- Gather additional evidence, including information to assess the reasonableness of key inputs noted in CPAB's finding.
- A memo further assessing the discount rate and terminal value inputs noted in CPAB's finding together with supporting evidence, as well as any related impact on impairment.

**CPAB Disposition:** We accept the engagement team's proposed remediation procedures as outlined above. Please update CPAB and the Audit Committee with the results of the additional procedures once completed.

## Appendix E – Draft of individual firm inspection report

The draft report below is provided to illustrate the information that could be included in a public individual firm inspection report.

### Firm X – 2024 Regulatory assessment

#### Overview

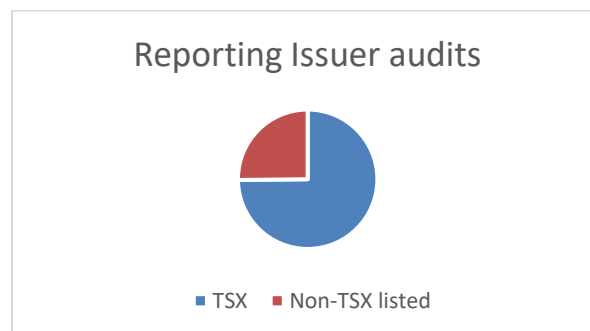
The Canadian Public Accountability Board (CPAB) is Canada’s independent public company audit regulator charged with protecting the investing public’s interests. As such, we oversee public accounting firms that audit Canadian reporting issuers.

Members of CPAB’s staff conducted an inspection of X LLP in 2024 (Firm X), pursuant to Section 400 of the Rules of CPAB (the “Rules”), as authorized by the Canadian Public Accountability Board Act, R.S.O. 2006, C. C-33 (the “Act”). This inspection assessed the firm’s compliance with professional standards and involved a review of a limited sample of reporting issuer<sup>8</sup> audit files. For additional information on CPAB’s risk-based methodology for choosing files see the Appendix to this report.

Through an inspection, CPAB may identify significant findings which represent deficiencies in the application of generally accepted auditing standards. These findings are summarized below. Where a significant finding is identified the firm must perform additional audit work to support the audit opinion reached, and/or must make significant changes to its audit approach. It is important to note that when CPAB identifies an auditing deficiency, it does not mean that the reporting issuer’s financial statements are materially misstated.

#### About Firm X

Firm X audits 147 reporting issuers that fall within CPAB’s scope, including 110 entities listed on the Toronto Stock Exchange (TSX) and 37 other non-TSX<sup>9</sup> -listed entities. CPAB conducts an assessment of Firm X’s compliance with professional standards annually.



<sup>8</sup> A reporting issuer is generally a public entity in Canada with ongoing compliance and disclosure obligations.

<sup>9</sup> Non-TSX listed entities includes reporting issuers listed on the TSX-V, CSE, NEX.

### Inspection findings: Firm X

	2024	2023
Files inspected	15	17
Files with significant findings <sup>10</sup>	1	3

### Focus areas

This table reflects the five audit areas we have selected most frequently for review in each inspection year. These areas were selected because they are generally significant to the reporting issuer's financial statement or included complex issues or judgement.

2024			2023		
Audit area	Number of audits inspected	Number of audits with significant findings	Audit area	Number of audits inspected	Number of audits with significant findings
Revenue and related accounts	12	0	Revenue and related accounts	13	1
Inventory	9	1	Business combination	10	1
Goodwill and intangible assets	7	0	Goodwill and intangible assets	7	0
Going concern	15	0	Inventory	12	1
Leases	8	0	Long-lived assets	8	0

<sup>10</sup> Significant findings — A significant finding is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires firms to carry out additional audit procedures to identify whether there are material errors that could require restatement of the reporting issuer's financial statements, or to substantiate that the firm obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream.

## Appendix

### How CPAB chooses files to review

CPAB's risk-based methodology for choosing files for inspection (and the specific areas of focus for those files) is not designed to select a representative sample of a firm's audit work. Instead, it is biased towards higher-risk audit areas of more complex reporting issuers or areas where the firm may have less expertise, so there is a greater likelihood of encountering audit quality issues. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors meet or exceed standards. Results should not be extrapolated across a firm's entire audit business, but instead viewed as an indication of how firms address their most challenging situations.

### How firms respond to CPAB findings

The majority of CPAB's inspection findings require the firm to carry out additional audit procedures to identify whether there are material errors that could require restatement of the reporting issuer's financial statements. In a minority of cases, CPAB requires the firm to add considerable evidence to the audit file to show it obtained sufficient and appropriate audit evidence with respect to a major financial statement item.

### Firm's system of quality management

CPAB's inspection report does not provide a detailed assessment of the firm's system of quality management. If CPAB makes recommendations to a firm for improvement of its system of quality management, the firm is required to submit evidence or otherwise demonstrate to CPAB it has remedied weaknesses and deficiencies and implemented recommendations no later than 180 days after issuance of the final inspection report. If a firm does not address the weaknesses, deficiencies, or recommendations to the satisfaction of CPAB, or does not make a submission in accordance with CPAB Rule 416, CPAB may make public on its website the relevant portion or portions of the final inspection report that deal with the weaknesses, deficiencies or recommendations and the fact that they have not been addressed to CPAB's satisfaction.

### About this report

CPAB's inspection report summarizes CPAB findings on key matters relevant to audit quality at Firm X during 2024. CPAB does not accept any liability to any party for any loss, damage or costs however arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on, or otherwise using this document, or arising from any omission from it.