

November 20, 2023

Canadian Public Accountability Board  
Submitted via Email to: [consultation@cpab-ccrc.ca](mailto:consultation@cpab-ccrc.ca)

## **Re: Request for Comment on the Canadian Public Accountability Board's Proposed Rule Changes**

FAIR Canada is pleased to provide comments in response to the above-referenced Consultation.

FAIR Canada is a national, independent, non-profit organization dedicated to being a catalyst for the advancement of the rights of investors and financial consumers in Canada. We advance our mission through outreach and education, public policy submissions to governments and regulators, and proactive identification of emerging issues. As part of our commitment to be a trusted, independent voice on issues that affect retail investors, we conduct research to hear directly from investors about their experiences and concerns. FAIR Canada has a reputation for independence, thoughtful public policy commentary, and repeatedly advancing the interests of retail investors and financial consumers.<sup>1</sup>

### **A. Proposed Rule Changes – General Comments**

We support the efforts of the Canadian Public Accountability Board (CPAB) to strengthen public confidence in the integrity of financial reporting by enhancing its oversight of public company auditors.

Investors' confidence in the integrity of public financial reporting is a key component of their overall confidence in Canada's capital markets. Without financial disclosure that fairly and accurately reports the financial performance and condition of publicly listed companies, investors cannot make informed investment or voting decisions.

Auditors play an important gatekeeping role in public financial reporting. Auditors that properly discharge their professional obligations ensure that financial reporting meets accepted audit assurance standards. Effective oversight of public company auditors is key to supporting investor confidence in these auditors and public financial reporting.

Our comment letter will focus on CPAB's proposals which most directly impact investors, namely:

- Disclosure related changes, and
- Participation and withdrawal changes.

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<sup>1</sup> Visit [www.faircanada.ca](http://www.faircanada.ca) for more information.

## B. Disclosure Related Changes

### 1. Mandatory Compliance with the Protocol

We strongly support CPAB amending its Rules to require that all participating firms comply with the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (the Protocol).<sup>2</sup> Mandating compliance with the Protocol will ensure that audit committees are better able to:

- Discharge their obligations in overseeing the work done by their auditors,
- Evaluate whether the financial statements may need to be reviewed and/or restated,
- Assess whether the reporting issuer should update and correct any public disclosure with respect to its financial reporting, and
- Assess whether the reporting issuer is getting value from the audit firm or whether it should continue to have confidence in the audit firm's work.

We advocated for a mandatory approach in our comment letter dated September 29, 2021,<sup>3</sup> and are pleased to see that CPAB proposes to adopt this change. The fact that sharing of file-specific inspection findings with audit committees pursuant to the Protocol declined from 36 of 38 files in 2021 to only 34 of 44 files in 2022<sup>4</sup> reinforces our view that a mandatory approach is now required.

### 2. Disclosure of Individual Firm Inspection Reports

We also support CPAB's proposal to publicly disclose individual firm inspection reports. Such disclosure has the following benefits:

- **Safeguards Investor Interests:** Increased awareness of significant findings for an audit firm could cause other audit committees that retained that firm to consider whether those findings might apply to their situation. This may include reviewing their financial statements to ensure they are accurate, and investors can continue to rely on them.
- **Promotes Audit Quality:** The increased public scrutiny should promote greater accountability and strengthen audit quality.
- **Supports Audit Engagement Decision-Making:** Such disclosure would provide information that may assist reporting issuers considering new audit engagements.
- **Aligns with international standards:** It would harmonize Canada's approach to overseeing auditors with other jurisdictions such as the U.S., U.K., and Australia.

Given CPAB's role in promoting audit quality and the benefits of transparency, we believe that individual firm inspection reports should be disclosed annually for each audit firm inspected by CPAB in a given year.

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<sup>2</sup> [Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees](#) (CPAB: March 2014).

<sup>3</sup> [FAIR Canada](#) (September 29, 2021), at 3-4.

<sup>4</sup> [2022 Annual Report](#) (CPAB: March 2023), at 13.

## a) Addressing Concerns with Disclosure

We recognize that publicizing individual firm inspection reports poses some risks and challenges, including that some auditors may be less inclined to take on complex audit files or audit clients that may present higher risks. These risks will be attenuated by the fact that the individual firm inspection reports will include the final response from the participating audit firm (assuming one is provided). In addition, some Canadian audit firms are also already subject to public reporting by foreign audit oversight bodies. For example, the Public Company Accounting Oversight Board (PCAOB) issues firm inspection reports for some Canadian audit firms. There is no evidence to suggest that such disclosure has adversely impacted the ability of issuers to retain audit firms.

In addition, we recognize there is a risk that investors and audit committees may not fully understand how to interpret the disclosure, or what “it says and does not say” about the financial statements audited by that audit firm. As previously noted, such risks can be managed through supplemental cautionary language and explanation in the disclosure.<sup>5</sup>

We are therefore pleased to see that CPAB is proposing to include plain language explanations regarding its sample selection methodology, including what the public should take away from the sample individual firm inspection report. We would recommend that CPAB also consider including:

- **A link to more detailed information:** CPAB could provide a link in its individual firm inspection reports to the “[Regulatory Assessments](#)” page of its website, which provides more information about CPAB’s Audit Quality Assessment program.
- **Additional graphics:** Graphics that highlight the number of audit files CPAB inspected versus the number of audit files not inspected, and the number of inspected audit files with significant findings versus the number of inspected audit files without significant findings, would help highlight that CPAB’s audit file inspections relate to a small proportion of the auditor’s audit files.
- **Venture Issuers:** To the extent there is a concern that firms that primarily audit venture issuers may have higher rates of significant findings, CPAB could consider adding cautionary language to its individual firm inspection reports regarding the challenges of auditing such clients.

## b) Enhancing Disclosure

We appreciate the proposed rule change permitting CPAB to disclose individual firm inspection reports would give CPAB the discretion to determine the form and content of such reports within certain parameters. We support CPAB’s proposed sample individual firm inspection report as an initial step in providing such disclosure. However, we encourage CPAB to consider including additional disclosure that would provide investors and audit committees with context that would enable them to better understand and benefit from it.

CPAB could make its individual firm inspection reports more useful for investors and audit committees by including information regarding the nature of any:

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<sup>5</sup> [FAIR Canada](#) (September 29, 2021), at 4-5.

- Significant findings,
- CPAB recommendations,
- Remediation undertaken by the audit firm,
- Enforcement action and the reasons for the action, and
- Potential material misstatements in financial reporting.

## C. Participation and Withdrawal Changes

We support the proposed introduction of a new Rule 217 designed to enhance CPAB’s operational effectiveness. Proposed Rule 217 would provide CPAB with additional powers, including the right to terminate an audit firm’s status as a participating audit firm for material non-compliance with the registration or participation requirements, or for providing inaccurate or incomplete information to CPAB. The new rule would bring CPAB’s powers more in line with those of the PCAOB in the U.S., which should support continued or increased reliance on each other’s inspection programs.

We also support CPAB’s proposed amendments to Rule 254 that would enable it to retain jurisdiction to inspect, investigate, or take enforcement action against audit firms that may withdraw during such oversight processes, or for conduct that occurs while the firm was registered as a CPAB participating firm. A participating audit firm should not be able to evade a finding of misconduct or the imposition of an enforcement action simply by terminating or allowing the participation agreement to lapse. This approach will promote confidence in CPAB’s effectiveness and ensure that its investigatory program cannot be undermined by a participating audit firm’s decision to withdraw its participation.

In our view, CPAB’s proposed rule change would plug an enforcement gap that could undermine investor and issuer confidence in CPAB’s oversight program.

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Thank you for considering our comments on this important issue. We welcome any further opportunities to advance efforts that improve outcomes for investors. We intend to post our submission on the FAIR Canada website and have no concerns with CPAB publishing it on its website. We would be pleased to discuss our submission with you. Please contact Jean-Paul Bureaud, Executive Director, at [jp.bureaud@faircanada.ca](mailto:jp.bureaud@faircanada.ca) or Bruce McPherson, Policy Counsel, at [bruce.mcpherson@faircanada.ca](mailto:bruce.mcpherson@faircanada.ca).

Sincerely,



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President, CEO and Executive Director  
FAIR Canada | Canadian Foundation for Advancement of Investor Rights