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September 30, 2021

consultation@cpab-ccrc.ca

Canadian Public Accountability Board
150 York Street, Suite 900
Toronto, ON M5H 3S5

Dear Sirs/Mesdames:

CPAB Disclosures Public Consultation

Thank you for this opportunity to provide input on potential changes to the information CPAB publicly discloses about the results of its regulatory assessment of public accounting firms that audit Canadian Reporting issuers.

We understand that CPAB is reviewing its approach to disclosures for several reasons, including:

- Interest from certain stakeholders, including some audit committee chairs of Canadian reporting issuers and investors, in CPAB providing more information.
- Increasing public expectation about access to information from regulators.
- Continued high rates of inspection findings among some Participating Audit Firms raises a consideration of whether additional disclosures will assist in protecting the investing public.
- Prior expression of interest by some audit firms to publicly disclose the results of their regulatory assessments by CPAB.
- Increased disclosure by audit regulators internationally.

Our comments are made giving consideration to CPAB's mission and responsibility to promote sustainable audit quality through proactive regulatory oversight.

Over Arching Consideration

BDO is fully committed to delivering quality audits. We consistently strive to deliver the best audits we can. This our duty to our clients, the public, and the audit profession. Accordingly, we believe it is important to state that any revision to CPAB's disclosure policies will not itself be causative of an increase in our audit quality.

Communication to Audit Committees

The communication that is currently mandated when firms opt into CPAB's voluntary communication protocol is logical and consistent with promoting audit quality. Accurate and quality financial reporting requires collaborative effort by auditors, their clients' management, and their clients' audit committees – the proverbial three-legs of the audit quality stool. When there is a deficiency finding relating to an audit, open and constructive discussion amongst the relevant audit firm and their client's management and audit committee can highlight the need for combined effort to effect future improvement.

Because of the audit quality benefits described that can result from collaborative efforts by firms and their clients, BDO would be supportive of CPAB's voluntary communication protocol being made mandatory.

Disclosure of Results of Regulatory Oversight Activities

We are supportive of CPAB communicating overall statistical information about the results of its audit firm inspections and audit quality trends. Reasonable anonymization of inspection result findings should be maintained to avoid the dissemination of misleading information, which is unfair to audit committees and audit firms and may be detrimental to competition in the audit marketplace.

We believe that the current restriction on what firms and CPAB can communicate about individual firm inspection results is appropriate to avoid the dissemination of misleading information. For mid-tier and smaller firms, CPAB's inspection samples can be very small and inspection results do not lend themselves to meaningful statistical analyses.

Small-cap reporting issuers do not always have the same means or resources to support quality financial reporting as larger and better capitalized entities. If, contrary to our input above, inspection results are going to be publicly reported, by firm, we believe CPAB should give serious consideration to stratifying its reporting to show findings on audited entities within market capitalization ranges. This would implicitly give some recognition to the shared responsibility between clients and their auditors for quality financial reporting. Reporting without stratification may have the unintended consequence that some of the stronger audit firms completely withdraw from providing audit services to small reporting issuers to the overall detriment of the capital markets and competition.

Disclosures Related to CPAB's Enforcement Actions

Increased disclosure of enforcement actions by CPAB must be approached with great caution. BDO recognizes, however, that there must be accountability if a firm is not committed to supporting quality financial reporting. Robust and quality audits play an important role in our financial system and auditors that consistently fail to render quality audits should be held accountable.

Yours very truly,

Patrick Kramer, CPA, CA
Chief Executive Officer

CFA Societies Canada

Canadian Advocacy Council

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September 30, 2021

VIA EMAIL

Canadian Public Accountability Board
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Re: Consultation – Regulatory Disclosures (the "Consultation")

The Canadian Advocacy Council of CFA Societies Canada[1] (the "CAC") appreciates the opportunity to provide the following general comments on the Consultation. We are supportive of CPAB's consultation, and agree that there are investor protection and capital markets integrity benefits that could be achieved through consideration of changes to the information that CPAB discloses about the results of its regulatory assessments, including both inspection findings and enforcement actions.

With respect to the stated disclosure principles, the principle of public accountability particularly resonates with our group. We believe that regulatory transparency is paramount to capital markets integrity and systemic trust, and to the extent that CPAB's assessment of a participating audit firm or an enforcement finding relates to a systemic issue or a matter of clear public interest, instances of disclosure should increase.

We understand that the 2014 Protocols permit audit firms to share the results of individual file inspections with the audit committee of a reporting issuer on a voluntary basis. We would support rule changes to require disclosure of such results in all cases with the issuer's audit committee (or similar governing body). Absent compelling policy reasons, we do not believe there is a reason to differentiate between venture and non-venture reporting issuers in this regard. We agree that such a change would potentially enhance investor protection (and also capital markets integrity) by providing more

[1] The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 19,000 Canadian CFA Charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 178,000 CFA Charterholders worldwide in over 160 markets. CFA Institute has nine offices worldwide and there are 160 local member societies. For more information, visit www.cfainstitute.org.

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information to the audit committee to help with its oversight functions, and improve systemic governance of reporting issuers in the process.

With respect to the type of information that could be disclosed to the public in future for individual audit firm reviews, we are of the view that information that would be most useful to external stakeholders (such as analysts and other end users of financial statements) includes anything that identifies material and systemic audit issues, including relating to conflicts of interest such as those arising from consultancy mandates with the reporting issuer. Not every deficiency will rise to the level of requiring public disclosure, or it will risk masking the issues that could erode public trust in audit and reporting issuer governance/capital markets integrity more broadly. Nor do we believe that issues that may be outside an auditor's control need always be disclosed – as an example, auditors that rely on the scope of correspondent or subsidiary audits performed in certain foreign jurisdictions may be required to accept the findings of such audits because they are acceptable in the local jurisdiction, even if they may not meet all Canadian standards for transparency or disclosure. In essence, any issue that would cause an objective end user to question the integrity, independence, or validity of the audit results that are within the audit firm's control should be strongly considered for public disclosure.

We think these disclosures should be provided for all inspections of audit firms, even though we understand there is a risk of misinterpretation based on the risk-based method currently used to select files for inspection.

CPAB notes in the Consultation that to date, it has not publicly disclosed any enforcement action. We think this is an area that should be subject to additional consultation with additional background information to better judge the potential scope and applicability to capital markets integrity and the public interest, but in general are supportive of additional transparency with respect to serious enforcement issues. Several regulators in the wider capital markets/securities ecosystem and in foreign jurisdictions have proposed and/or adopted various enforcement mechanisms (including early settlement offers) based on the severity and impact to the public of the issues raised, and the public disclosure of such enforcement actions correspondingly vary. Comparisons may be made to the circumstances in which securities regulators and self-regulatory organizations disclose enforcement actions, as many of the same investor protection and capital markets integrity issues may be raised by significant breaches of professional audit standards. At the very least, such disclosure could (and should) impact the choice of auditor by reporting issuers, and may subject the same to additional scrutiny by investors in exercising their voting rights. As CPAB moves up the enforcement spectrum toward sanctions such as termination of audit engagements, it is difficult to argue against public disclosure of sanctions of such nature.

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Concluding Remarks

We support efforts to increase regulatory transparency with respect to systemic issues found in CPAB's review of audit work of participating audit firms. The audit of reporting issuer financial statements contributes in an important fashion to the integrity of and confidence in our Canadian capital markets, and is a matter of interest to the governance bodies of reporting issuers and more widely to all stakeholders in Canadian capital markets.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Advocacy Council of*
CFA Societies Canada

The Canadian Advocacy Council of
CFA Societies Canada

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ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Le 29 septembre 2021

PAR COURRIEL

Mme Carol A. Paradine, FCPA, CA
Chef de la direction
Conseil canadien sur la reddition de comptes
1155, Boulevard René-Lévesque,
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Objet : Réponse de l'Ordre des CPA du Québec à la Consultation publique relative aux divulgations 2021 du CCRC

Madame,

L'Ordre des CPA du Québec vous invite à prendre connaissance de sa réponse à la consultation publique relative aux divulgations 2021 du CCRC et a beaucoup apprécié d'être sollicité pour y participer. Par ailleurs, l'Ordre souhaite que sa réponse soit partagée avec les membres du Conseil du CCRC.

Préambule - Cadre juridique

L'Ordre des comptables professionnels agréés du Québec (l'Ordre) est un ordre professionnel au sens du *Code des professions*. S'étant vu déléguer ses pouvoirs du Gouvernement, il est un organisme dont la mission principale est vouée à la protection du public[1], ainsi qu'un ordre d'exercice exclusif, c'est-à-dire que seules les personnes qui détiennent le permis de comptabilité publique peuvent exercer la certification au Québec. Dans le cadre de sa mission, l'Ordre est responsable d'assurer l'inspection des compétences professionnelles de ses membres, qu'ils exercent seuls ou au sein d'une société. Ces pouvoirs d'inspection sont conférés à l'Ordre par l'article 192 du *Code des professions*, et lui permettent d'inspecter les dossiers assujettis au secret professionnel. Dans ce contexte, les inspecteurs sont tenus de prêter un serment de discrétion[2] en vertu de l'article 111 du *Code des professions*.

Au Québec, les pouvoirs du Conseil canadien sur la reddition de comptes (le CCRC) en matière d'inspection des cabinets comptables s'exercent suivant le Décret 74-2019, du 6 février 2019 homologuant, pour une durée de 5 ans, l'entente intervenue entre l'Ordre et le CCRC et lui donnant force de loi (l'Entente).

Cette Entente a été conclue en vertu de l'article 9 de la *Loi sur les comptables professionnels agréés* (la Loi), qui autorise l'Ordre à conclure avec le CCRC une entente de collaboration permettant aux inspecteurs du CCRC d'avoir accès aux dossiers des CPA et d'échanger des informations obtenues dans le cadre de leurs

[1] Article **23 Code des professions :**
Chaque ordre a pour principale fonction d'assurer la protection du public.
À cette fin, il doit notamment contrôler l'exercice de la profession par ses membres.
[2] ANNEXE II – SERMENT DE DISCRÉTION :
Je, A. B., déclare sous serment que je ne révélerai et ne ferai connaître, sans y être autorisé par la loi, quoi que ce soit dont j'aurai eu connaissance dans l'exercice de ma charge.

…2

enquêtes et inspection concernant des membres de l'Ordre ou des sociétés de membres ayant, parmi leur clientèle, des émetteurs assujettis. En vertu des articles 9 et 10 de la Loi, ces informations peuvent être obtenues et échangées malgré le secret professionnel des comptables professionnels agréés.

Puisque le CCRC n'a pas de loi habilitante au Québec, c'est donc uniquement grâce aux articles 9 et 10 de Loi et à l'Entente que le CCRC dispose des pouvoirs d'inspection des dossiers protégés par le secret professionnel, lesquels pouvoirs sont normalement dévolus à l'Ordre en vertu du Code des professions. Ce faisant, à l'instar de l'Ordre, le CCRC est assujetti aux règles d'encadrement de la profession prévues au *Code des professions* (le Code), à la *Loi sur les comptables professionnels agréés du Québec* (la LCPAQ) ainsi qu'à la réglementation qui en découle.

L'Entente prévoit notamment que les renseignements obtenus dans le cadre des inspections et communiqués par le CCRC le seront pour le seul exercice des fonctions d'inspection, de discipline, de révision, de règlement des différends et d'examen ou d'enquête et non à des fins de communication avec des tiers. Le CCRC est tenu d'accorder aux renseignements confidentiels obtenus en application de l'entente, la même confidentialité que celle que l'Ordre accorde lui-même aux renseignements qu'il obtient ou qu'il détient dans l'exercice de ses pouvoirs d'inspection, qui lui sont conférés par le *Code des professions*.

Les activités de surveillance du CCRC sont, au Québec, assimilées aux activités d'inspection professionnelle de l'Ordre, lesquelles ne sont jamais rendues publiques, sauf lorsque le dossier d'un membre se retrouve ultimement devant le Conseil de discipline ou lorsqu'un membre voit son droit d'exercice limité ou suspendu à la suite d'une inspection. Elles doivent nécessairement respecter le secret professionnel des membres chargés des missions d'audit inspectés, tout autant que la confidentialité du processus d'inspection professionnelle.

Or, la divulgation proposée par le CCRC met en péril la protection du secret professionnel, qui est consacré à l'article 9 de la *Charte québécoise des droits et libertés de la personne*, qui vise indistinctement tous les professionnels québécois:

> **9.** Chacun a droit au respect du secret professionnel.
>
> Toute personne tenue par la loi au secret professionnel et tout prêtre ou autre ministre du culte ne peuvent, même en justice, divulguer les renseignements confidentiels qui leur ont été révélés en raison de leur état ou profession, à moins qu'ils n'y soient autorisés par celui qui leur a fait ces confidences ou par une disposition expresse de la loi.
>
> Le tribunal doit, d'office, assurer le respect du secret professionnel.

Selon cet article, le secret professionnel comporte deux composantes : 1) le devoir de discrétion du professionnel, qui implique le droit à la confidentialité des informations transmises entre un client et le professionnel qu'il consulte; 2) le caractère privilégié de la communication assujettie au secret professionnel, qui protège le client contre la divulgation de cette communication, notamment dans une instance judiciaire.[3]

La Charte prévoit également que les tribunaux ont l'obligation de protéger le secret professionnel. Dans cette optique, *le Code civil du Québec* prévoit, à son article 2858, que les tribunaux se doivent de rejeter d'emblée tout élément de preuve qui viole le droit au secret professionnel.

Le Québec est la seule juridiction canadienne à appliquer à l'ensemble des professionnels cette double protection et à conférer au devoir de confidentialité auquel sont tenus tous les professionnels un statut quasi-constitutionnel. D'autres juridictions canadiennes reconnaissent l'obligation de confidentialité de certains professionnels, mais peu ont reconnu une immunité de divulgation devant les instances judiciaires à d'autres secrets professionnels que celui de l'avocat.

L'obligation de respecter le secret professionnel est également réitérée à l'article 60.4 du *Code des professions* ainsi qu'à l'article 48 du *Code de déontologie des comptables professionnels agréés.* Le maintien de la confidentialité des échanges entre un professionnel et son client vise à assurer le maintien d'une relation de confiance, afin d'assurer la transparence des communications, essentielle à la qualité de l'acte professionnel.

[3] Voir, notamment, *Foster Wheeler Power Co. C. Siged* (2004) 1 R.C.S. 456, para. 27.

Le système professionnel québécois est un ensemble cohérent dont le cadre juridique est structuré afin que l'Ordre accomplisse sa mission première, soit la protection du public. Bien que la transparence soit une valeur louable, cette dernière ne saurait aller à l'encontre de ce cadre juridique.

Nous sommes d'avis que la divulgation des résultats des activités de surveillance, telle que présentée au document de consultation du CCRC, ne respecte pas le principe de la confidentialité du processus d'inspection professionnelle. C'est donc dans ce cadre bien précis que l'Ordre s'inscrit dans la présente consultation et formule ses observations à l'égard des éléments qui se retrouvent à la page 6 du document de consultation.

1. Principes de divulgation

a. Vos commentaires sur les principes de divulgation que nous proposons, y compris tout autre principe que nous devrions prendre en considération.

Quels que soient les principes qui sous-tendent les propositions du CCRC, le respect du cadre législatif et réglementaire québécois applicable aux inspections du CCRC auprès des cabinets de CPA constitue un principe incontournable. Les propositions contenues au présent rapport ne pourront être mises en œuvre dans le cadre législatif applicable au système professionnel québécois.

Nous estimons par ailleurs que la proposition de rendre publics les résultats d'inspections par cabinets aurait des effets pervers allant à l'encontre des principes de divulgation proposés. Ces effets sont décrits ci-dessous.

Amélioration concernant la qualité de l'audit

Le document de consultation ne permet pas de déterminer comment la qualité de l'audit de l'entité cliente serait améliorée par la modification proposée aux principes de divulgation.

Par ailleurs, nous craignons que la divulgation des rapports d'inspection puisse inciter de plus fortes contestations par les cabinets des positions ou points soulevés dans le rapport. En effet, certains cabinets pourraient être portés à vouloir négocier le contenu du rapport ou contester les lacunes qui y sont rapportées au lieu de chercher à comprendre les lacunes et les améliorations à être apportées. Ce faisant, la qualité de l'audit n'en serait pas améliorée.

Rapidité de la production de rapports du CCRC et de la correction des déficiences de l'audit

Nous sommes d'avis que les principes de divulgation proposés pourraient être de nature à retarder significativement la production des rapports, en multipliant les arbitrages entre les cabinets et le CCRC sans qu'il n'y ait de plus-value apparente pour la protection du public. Nous y voyons un risque d'entrave important à la collaboration entre le CCRC et les cabinets, ce qui pourrait augmenter significativement les échéanciers pour divulguer leurs constats avec les conseils d'administration et le public. Cela aurait pour effet de retarder la publication des constats généraux permettant aux cabinets de s'améliorer et, conséquemment, avoir une incidence négative sur la qualité de l'audit.

Reddition de comptes au public

Le public n'est pas uniquement composé du public "investisseur", mais bien de citoyens contribuables qui ne sont pas ou peu familiers avec la mission et les activités du CCRC, la mécanique d'inspection et le créneau très restreint dans lequel celles-ci se déroulent.

Les constatations du CCRC ne sont pas un reflet de la qualité de l'ensemble des mandats exécutés par un cabinet, mais bien le reflet du travail exécuté dans un mandat par une équipe de professionnels chargés de la mission d'audit de dossiers identifiés par le CCRC en fonction de leur facteur de risque. Il s'agit donc d'un échantillonnage bien ciblé et biaisé. Conséquemment, cette approche serait susceptible d'induire le public en erreur en créant un décalage entre la réalité et les attentes du lecteur (expectation gap) en raison d'une compréhension déficiente du processus d'inspection de la part d'un public non informé. Une publication basée sur un échantillonnage des dossiers d'un cabinet ne saurait constituer le reflet de l'ensemble des mandats exécutés par les membres œuvrant au sein de ce cabinet. Tirer des conclusions potentiellement erronées sur

les compétences de certains membres en se basant sur un échantillon n'est pas, à notre avis, propre à assurer la protection du public.

Nous craignons que malgré une intention initialement fort louable, la communication des résultats des activités de surveillance ne devienne un palmarès servant à coter les cabinets de CPA. Ce classement pourrait par la suite être utilisé dans le cadre d'appels d'offres, de publicités, sans égard au contexte dans lequel s'inscrivent les inspections du CCRC, ce qui soulèveraient des enjeux de protection du public.

Il est donc possible que le processus de divulgation envisagé soit de nature à créer une barrière additionnelle à l'entrée pour de nouveaux joueurs voulant effectuer l'audit de sociétés cotées.

De plus, les évaluations du CCRC sont de nature pancanadienne alors que les interventions des ordres et l'encadrement des membres, eux, relèvent des provinces. Il est souhaitable que les membres de l'Ordre dont les compétences professionnelles sont jugées déficientes à la suite d'une inspection du CCRC soient sanctionnés par les Ordres.

Coûts par rapport aux avantages

Nous ne considérons pas que les principes de divulgation proposés apporteront une valeur ajoutée à la protection du public et à celle du public "investisseur" qui saura surpasser les conséquences de l'atteinte au secret professionnel et à la confidentialité du processus d'inspection professionnelle.

2. Communication aux comités d'audit

a. Le CCRC devrait-il amender ses règles afin de rendre obligatoire le partage des résultats des inspections des dossiers d'audit individuels avec le comité d'audit (ou d'autres personnes responsables de la gouvernance s'il n'y a pas de comité d'audit) de l'émetteur assujetti en question ?

Nous reconnaissons que le partage des résultats des inspections des dossiers d'audit individuels avec le comité d'audit composé d'administrateurs des entités clientes peut s'avérer utile et souhaitable pour assurer la protection du public.

Bien entendu, il est ici question de communiquer uniquement les constats portant sur la mission d'audit effectuée par le cabinet auprès de l'entité cliente et non de tiers.

Le partage des constats d'inspection entre le Comité d'Inspection Professionnel (CIP) de l'Ordre et les clients d'un cabinet de CPA n'est toutefois pas autorisé ni encadré par les règles qui s'appliquent à l'inspection professionnelle au Québec et auxquelles est assujetti le CCRC. Actuellement, celle-ci ne peut se faire que sur autorisation explicite du client.

b. Ce partage d'information devrait-il être obligatoire pour tous les émetteurs assujettis ? Pourquoi ou pourquoi pas ?

Pour permettre une divulgation obligatoire, il faudrait modifier l'Entente entre l'Ordre et le CCRC et, possiblement, le cadre législatif applicable. Ce processus est long, complexe et requiert l'approbation au préalable de l'Office des professions. Or l'Office n'a pas démontré d'intérêt à rouvrir cette Entente pour le moment et n'accepte pas de rencontrer le CCRC à cet effet.

Néanmoins, au niveau de la protection du public, cette obligation serait une façon intéressante pour le cabinet de faire une reddition de compte à son client, via le comité d'audit et ultimement au Conseil d'administration.

3. Divulgation des résultats des activités de surveillance réglementaire du CCRC

a. Le CCRC devrait-il amender ses règles pour permettre la divulgation des constatations par cabinet ? Veuillez expliquer.

Pour établir ses constats, le CCRC doit nécessairement avoir accès au dossier du client. Ainsi, l'opinion émise sera fondée à partir d'informations et d'éléments contenus au dossier de l'entité cliente, lesquels sont protégés par le secret professionnel. Malgré l'anonymisation des noms des clients, nous sommes d'avis que le mécanisme de sélection des dossiers inspectés par le CCRC, combiné au facteur de risque communiqué publiquement, au nombre limité de cabinets enregistrés auprès du CCRC et à la mention des déficiences soulevées par cabinet, permettraient facilement à une personne avertie d'identifier l'entité cliente. Ainsi, nous estimons que les principes de divulgation proposés sont de nature à porter atteinte à la protection du secret professionnel et que la démonstration n'a pas été faite par le CCRC quant au bénéfice, pour la protection du public et l'intérêt commun de le faire. La pression des parties prenantes ou des médias ne saurait à elle seule justifier une atteinte à un droit ayant un statut quasi-constitutionnel.

Les principes de divulgation proposés sont également de nature à porter atteinte au principe de confidentialité du processus d'inspection auquel le CCRC est assujetti au Québec par l'entremise de l'Entente.

Identifier les cabinets d'audit et les émetteurs assujettis dont les dossiers d'audit ont donné lieu aux constatations ou publier les constatations pour chacun des cabinets irait clairement à l'encontre des dispositions des articles 108.1, 108.3, 108.10, 111 du *Code des professions* et à l'encontre des articles 1,2,3 et 7 de l'Entente reproduits à l'ANNEXE 1. Il en va de même pour la divulgation d'une partie ou de la totalité des rapports confidentiels sur les inspections des cabinets individuels ou de rapports volontaires de rendre publique en tout ou en partie l'inspection.

De plus, l'existence d'une relation de confiance entre l'Ordre et ses membres est essentielle pour permettre à l'Ordre de jouer pleinement son rôle d'accompagnateur. L'inspection professionnelle contribue à la formation et à l'amélioration continue des membres de l'Ordre. Pour se faire, il importe de maintenir entre l'Ordre et ses membres un processus permettant des échanges sur une base confidentielle, sans crainte par les membres qu'une reconnaissance de certaines lacunes puisse nuire à leur réputation. L'inspection professionnelle n'est donc pas une activité de nature publique, mais une activité de contrôle de la compétence des CPA qui passe par un processus d'accompagnement. Ce n'est que lorsque l'Ordre doit limiter ou suspendre le droit d'exercice d'un membre ou lorsque le conseil de discipline est saisi du dossier d'un membre que le nom de ce dernier est rendu public. La divulgation telle que proposée viendrait mettre en péril cette relation de confiance en portant atteinte au principe de confidentialité enchâssé dans le cadre juridique du Québec auquel le CCRC est assujetti.

Pour ces motifs, nous sommes d'avis que la proposition de permettre la divulgation des constatations par cabinet va à l'encontre du cadre législatif québécois et est contraire à la protection du public.

b. Quel type d'information serait la plus pertinente, et comment, cette information devrait -elle être utilisée ?

Voir réponse précédente

c. Ces informations devraient-elles être divulguées pour toutes les inspections des cabinets d'audit participants ?

Voir réponse précédente

4. Divulgations liées aux mesures de renforcement de la réglementation du CCRC.

a. Comment utiliseriez-vous l'information relative aux mesures de renforcement de la réglementation du CCRC ?

Dans un premier temps, nous sommes d'avis que la divulgation publique par le CCRC des mesures de renforcement de la réglementation imposées à un cabinet ne peut être faite compte tenu du cadre juridique et

réglementaire auquel il est assujetti au Québec. En effet, le CCRC s'est engagé dans l'Entente homologuée à accorder aux renseignements confidentiels obtenus, la même confidentialité que celle que l'Ordre doit accorder aux renseignements qu'il obtient ou qu'il détient dans l'exercice de ses pouvoirs d'inspection qui lui sont conférés par le *Code des professions*.

Or, seules les décisions portant sur la limitation ou la suspension d'exercer des activités professionnelles ont un caractère public[4]. Les constats faits dans le cadre de l'inspection ainsi que les mesures proposées pour y remédier doivent conserver un caractère confidentiel.
Ainsi, lorsque des manquements sont constatés et que le CCRC limite les firmes dans la pratique de l'audit, l'Ordre pourrait identifier les associés du cabinet responsable de l'audit et inscrire cette limitation à leur dossier et au Tableau de l'Ordre. En vertu du Code des professions, les informations inscrites au Tableau sont accessibles au public[5]. Ce mécanisme de protection du public prévu par la loi, assure une transparence et permet au public d'être informé des limitations dont peut faire l'objet le CPA avec lequel il fait affaire.
Le processus menant à cette inscription devra donc être conforme au *Règlement sur le comité d'inspection professionnelle de l'Ordre des comptables professionnels agréés du Québec* et aux règles prévues au *Code des professions*.

b. Les divulgations du CCRC au sujet des mesures de renforcement de la réglementation devraient-elles s'appliquer à toutes les mesures de ce type ou seulement à certaines catégories ou certains types de violations des normes professionnelles ?

Au Québec, le CCRC ne peut divulguer aucune mesure puisqu'il appartient à l'Ordre et non au CCRC de rendre publiques ces informations, de la façon prévue par le Code des professions.

Par ailleurs, parmi les mesures de renforcement, seules les suspensions ou les limitations d'exercice imposées à un membre ont un caractère public et pourront donc être divulguées par l'Ordre. Ainsi, les autres mesures de redressement ne peuvent être rendues publiques, ni par le CCRC ni par l'Ordre.

5. Tout autre commentaire sur les conséquences imprévues potentielles ou sur d'autres coûts découlant des changements apportés aux divulgations du CCRC.

S/O

6. Autres domaines où le CCRC devrait envisager de modifier ses divulgations

Compte tenu de nos commentaires précédents, nous n'avons rien à ajouter à ce sujet.

Je demeure disponible pour échanger avec vous et votre équipe au sujet des présentes.

La présidente et chef de la direction

Geneviève Mottard, CPA, CA

c.c. M. Philippe Thieren, CPA, CA
Me Kristina Heese

[4] Articles 46.1 55 al. 2 , 113 et 108.7 (1), 108.8 (1)du *Code des professions*
[5] Art. 46.1, art. 108.8 (1) *Code des professions*

ANNEXE 1

Extraits de certaines dispositions législatives et réglementaires applicables aux inspections effectuées dans le cadre des activités d'inspections du CCRC au Québec

Code des professions[6]

SECTION V.1

ACCÈS AUX DOCUMENTS ET PROTECTION DES RENSEIGNEMENTS PERSONNELS

108.1 Les dispositions de la Loi sur l'accès aux documents des organismes publics et sur la protection des renseignements personnels (chapitre A-2.1), à l'exception des articles 8, 28, 29, 32, 37 à 39, 57, 76 et 86.1 de cette loi, s'appliquent aux documents détenus par un ordre professionnel dans le cadre du contrôle de l'exercice de la profession comme à ceux détenus par un organisme public.

Elles s'appliquent notamment, aux documents qui concernent la formation professionnelle, l'admission, la délivrance de permis, de certificat de spécialiste ou d'autorisation spéciale, la discipline, la conciliation et l'arbitrage de comptes, la surveillance de l'exercice de la profession et de l'utilisation d'un titre, l'inspection professionnelle et l'indemnisation ainsi qu'aux documents concernant l'adoption des normes relatives à ces objets.

108.3. Un ordre professionnel peut refuser de donner communication des documents et renseignements suivants détenus dans le cadre du contrôle de l'exercice de la profession :

1° un avis, une recommandation ou une analyse faits dans le cadre d'un processus décisionnel en cours au sein de l'ordre, d'un autre ordre ou de l'Office, jusqu'à ce que l'avis, la recommandation ou l'analyse ait fait l'objet d'une décision ou, en l'absence de décision, qu'une période de cinq ans se soit écoulée depuis la date de l'avis, de la recommandation ou de l'analyse;

2° un renseignement dont la divulgation est susceptible d'entraver le déroulement d'une vérification ou d'une inspection menée par une personne ou un comité mentionné au paragraphe 1° du premier alinéa de l'article 192 ou de révéler une méthode d'enquête, de vérification ou d'inspection;

3° un avis, une recommandation ou une analyse, incluant, les renseignements permettant d'identifier son auteur, dont la divulgation est susceptible d'avoir un effet sur une procédure judiciaire.

De même, un ordre professionnel peut refuser de confirmer l'existence ou de donner communication d'un renseignement ou d'un document dont la divulgation est susceptible de révéler le contenu d'une enquête ou d'avoir un effet sur une enquête à venir, en cours ou sujette à réouverture.

Les renseignements permettant d'identifier une société visée au chapitre VI.3 ou un autre groupe de professionnels, et **obtenus par une personne ou un comité** visés au paragraphe 1° du premier alinéa de l'article 192 dans le cadre d'une enquête, d'une vérification ou d'une inspection, **sont confidentiels sauf si leur divulgation est autrement autorisée**.

108.10. Un ordre professionnel peut, **sans le consentement de la personne concernée, communiquer un renseignement personnel qu'il détient sur cette personne** ou un renseignement concernant une société visée au chapitre VI.3 ou un autre groupe de professionnels:

1° à une personne ou à un comité visé à l'article 192 ou au Tribunal des professions lorsque cela est nécessaire à l'exercice de leurs fonctions;

[6] http://legisquebec.gouv.qc.ca/fr/showdoc/cs/c-26

2° à un **autre ordre professionnel** visé par le présent code ou à un organisme qui exerce des fonctions similaires ou complémentaires pour la protection du public lorsque cette communication est nécessaire pour une enquête, **un processus d'inspection** ou la délivrance d'un permis;

3° à l'Office pour l'exercice de ses fonctions;

4° à toute autre personne par voie de communiqué, d'avis ou autrement, lorsque le renseignement se rapporte à des activités professionnelles ou autres activités de même nature de la personne concernée qui risquent de mettre en danger la vie, la santé ou la sécurité d'autrui.

SECTION VI

INSPECTION PROFESSIONNELLE

111. Chaque membre du comité, inspecteur ou expert **prête le serment contenu à l'annexe II**. Il en est de même de la personne responsable de l'inspection professionnelle nommée conformément à l'article 90. Le serment ne peut cependant être interprété comme interdisant l'échange de renseignements ou de documents utiles au sein de l'ordre, pour les fins de protection du public.

ANNEXE II
(Articles 11, 14.1, 62.1, 86.4, 89.1, 111, 124)

SERMENT DE DISCRÉTION

Je, A. B., déclare sous serment que je ne révélerai et ne ferai connaître, sans y être autorisé par la loi, quoi que ce soit dont j'aurai eu connaissance dans l'exercice de ma charge.

CHAPITRE VIII

ENQUÊTES ET IMMUNITÉS

192. Peuvent prendre connaissance d'un dossier tenu par un professionnel, requérir la remise de tout document, prendre copie d'un tel dossier ou document et requérir qu'on leur fournisse tout renseignement, dans l'exercice de leurs fonctions:

1° un comité d'inspection professionnelle ou un membre, un inspecteur ou un expert de ce comité ainsi que la personne responsable de l'inspection professionnelle nommée conformément à l'article 90;

2° un syndic, un expert qu'un syndic s'adjoint ou une autre personne qui l'assiste dans l'exercice de ses fonctions d'enquête;

3° un comité de révision visé à l'article 123.3 ou un membre de ce comité;

4° un conseil de discipline ou un membre de ce conseil;

5° le Tribunal des professions ou un de ses juges;

6° tout comité d'enquête formé par un Conseil d'administration, un membre d'un tel comité ou un enquêteur de l'ordre;

7° tout administrateur désigné par le gouvernement en vertu de l'article 14.5;

8° une personne, un comité ou un membre d'un comité désigné par le Conseil d'administration pour l'application des articles 45 à 45.2, 46.0.1, 48 à 52.1, 55 à 55.2 ou 89.1;

9° *(paragraphe abrogé);*

Dans le cadre de l'application du présent article, **le professionnel doit sur demande, permettre l'examen d'un tel dossier ou document et fournir ces renseignements et il ne peut invoquer son obligation de respecter le secret professionnel pour refuser de le faire.**

Règlement sur le comité d'inspection professionnelle de l'Ordre des comptables professionnels agréés du Québec[7]

3. Les membres du comité entrent en fonctions après avoir prêté le serment contenu à l'annexe II du Code des professions (chapitre C-26), et le demeurent jusqu'à la nomination de leur successeur ou, le cas échéant, jusqu'à leur décès, démission, remplacement ou leur radiation du tableau.

Dans les cas où des enquêteurs assistent des membres du comité, ces derniers doivent aussi prêter serment.

8. Sous réserve de l'article 11, **seuls le secrétaire du comité, le personnel de secrétariat du comité et le président de l'Ordre ont accès aux dossiers, rapports, livres et registres du comité.**

Avant d'entrer en fonctions, le secrétaire du comité et les membres du personnel de secrétariat du comité prêtent le serment contenu à l'annexe II du Code.

31. L'audition est tenue à huis clos, sauf si le comité juge, à la demande du membre, qu'il est d'intérêt public qu'elle ne le soit pas.

[7] http://legisquebec.gouv.qc.ca/fr/ShowDoc/cr/C-48.1,%20r.%207%20/

Loi sur les comptables professionnels agréés du Québec[8]

9. Le Conseil d'administration peut conclure une entente avec les organismes suivants qui exercent des fonctions complémentaires de protection du public: l'Autorité des marchés financiers et le Conseil canadien sur la reddition de comptes constitué en vertu de la Loi sur les corporations canadiennes (S.R.C. 1970, c. C-32). La durée d'une telle entente ne peut excéder cinq ans.

L'entente peut, dans la mesure requise pour sa mise en oeuvre, déroger aux lois et règlements qui régissent l'Ordre à l'égard de la confidentialité des renseignements qu'il détient. Elle doit prévoir la nature et l'étendue des renseignements que l'Ordre et l'organisme pourront échanger sur l'inspection, la discipline ou toute enquête entreprise par l'organisme ou par l'Ordre qui concerne un professionnel ou une société de professionnels regroupant des membres de l'Ordre, préciser les fins de cet échange et les conditions de confidentialité, notamment celles portant sur le secret professionnel, qui doivent être respectées et établir l'usage qui peut être fait des renseignements ainsi obtenus.

Les renseignements qui peuvent être communiqués dans le cadre de l'entente doivent être nécessaires à l'exercice des fonctions de la partie qui les reçoit.

Les renseignements transmis par l'Ordre en application de l'entente doivent recevoir, auprès de l'organisme qui les reçoit, la même confidentialité que s'ils avaient été obtenus ou étaient détenus par l'Ordre dans l'exercice des pouvoirs qui lui sont accordés par le Code des professions (chapitre C-26). Toutefois, cette obligation n'a pas pour objet de restreindre les pouvoirs conférés en matière de communication de renseignements par une loi du Québec à l'Autorité des marchés financiers.

L'entente est publiée à la *Gazette officielle du Québec*. À l'expiration d'un délai d'au moins 45 jours de cette publication, elle est soumise, avec ou sans modification, à l'approbation du gouvernement. L'entente entre en vigueur après cette approbation, à la date où elle est publiée de nouveau à la *Gazette officielle du Québec* ou à une date ultérieure qu'elle indique.

L'Ordre fait état, dans le rapport qu'il doit produire en application de l'article 104 du Code des professions, de la mise en application de l'entente qu'il a conclue.

[8] http://legisquebec.gouv.qc.ca/fr/ShowDoc/cs/C-48.1

Entente de collaboration entre l'Ordre des comptables professionnels agréés du Québec et le Conseil canadien sur la reddition de comptes[9]

ARTICLE 5

CONFIDENTIALITÉ

1. Les Parties conviennent de ne faire usage des renseignements confidentiels obtenus en application de la présente entente qu'aux fins de l'exercice de leur mission respective que, pour sa part, le CCRC exerce en conformité avec ses règles et règlements par l'exercice de ses fonctions d'inspection, d'enquête ou de révision, et par l'émission de recommandations, d'exigences, de restrictions ou de sanctions.

2. Les Parties conviennent de **n'échanger de renseignements de nature confidentielle que par des moyens sécuritaires et de prendre les mesures requises pour protéger cette confidentialité**.

Les Parties conviennent au surplus **de ne communiquer ces renseignements qu'aux seules personnes au sein d'une Partie qui ont qualité pour les connaître et les utiliser aux fins de l'exercice de leurs fonctions.**

3. Chaque Partie convient d'accorder aux renseignements confidentiels transmis par l'autre au moins la même confidentialité qu'elle accorde aux renseignements de même nature qu'elle détient.

Le CCRC convient en particulier qu'il accordera aux renseignements confidentiels obtenus en application de la présente entente, la même confidentialité que celle que l'OCPAQ doit accorder aux renseignements qu'il obtient ou qu'il détient dans l'exercice des pouvoirs qui lui sont conférés par le Code des professions (chapitre C-26).

4. La Partie qui reçoit une demande de communication d'un renseignement confidentiel obtenu en application de la présente entente et qui estime qu'elle pourrait être tenue d'y accéder, avise sans délai l'autre Partie du contenu de cette demande, et collabore avec elle dans l'exercice des droits et recours dont elle peut se prévaloir.

5. La communication de renseignements ou le consentement à cette communication, en application de la présente entente, ne constituent pas une renonciation à la confidentialité par ailleurs accordée à ces renseignements en vertu des lois applicables.

De même, la communication faite en application de la présente entente de renseignements protégés par le secret professionnel du comptable professionnel agréé du Québec ne constitue pas une renonciation à ce secret.

Sous réserve de ce qui est prévu à l'égard des membres de l'Ordre dans la présente entente ou dans la Loi sur les comptables professionnels agréés (chapitre C-48.1), rien dans la présente entente ne limite la confidentialité des renseignements qui pourraient être protégés par le secret professionnel et qui sont détenus par un comptable professionnel agréé ou par un cabinet participant.

ARTICLE 7

DISPOSITIONS FINALES

1. La présente entente est conclue pour une durée de cinq ans à compter de son entrée en vigueur. Au moins dix-huit mois avant son expiration, les Parties conviennent de se consulter sur l'opportunité de la reconduire, avec ou sans modifications.

2. Les Parties conviennent que, malgré la fin de la présente entente pour quelque cause que ce soit, **elles demeureront liées par les obligations de confidentialité qui y sont stipulées**.

[9] http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=13&file=1908-F.PDF

3. Les Parties se consultent en temps utile, à la demande de l'une d'elles, concernant toute question ou difficulté liée à l'interprétation ou à l'application de la présente entente.

4. La présente entente entre en vigueur après l'approbation du gouvernement à la date de la seconde publication à la *Gazette officielle du Québec*.

5. La présente entente est régie par les lois **applicables au Québec**. En cas de contestation, les tribunaux du district de Montréal seront les seuls compétents pour en disposer.

FAIR
Canadian Foundation *for* Advancement *of* Investor Rights
Fondation canadienne *pour* l'avancement *des* droits *des* investisseurs

September 29, 2021

Canadian Public Accountability Board (CPAB)
Submitted via email to: consultation@cpab-crc.ca

Re: CPAB Consultation on Regulatory Disclosures

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

FAIR Canada is a national, independent charitable organization dedicated to being a catalyst for advancing investor rights in Canada. As a voice of the Canadian investor and financial consumer, FAIR Canada promotes its mission through outreach and education on public policy issues, policy submissions to governments and regulators, and proactive identification of emerging issues.[1]

Access to reliable financial reporting is critical for investors in making informed decisions. This assumes that auditors, who play a crucial gatekeeper role, are competent and meeting their professional standards. When auditors fail to meet these standards, it can call into question the reliability of financial statements prepared by reporting issuers and may erode confidence in our capital markets.

The continued high rates of significant inspection findings by CPAB indicates a need to do more to protect investors and strengthen public confidence. We are therefore generally supportive of CPAB's initiative to enhance disclosure of its inspection findings. If properly tailored, the additional disclosure contemplated in the consultation should promote audit quality and support better investor outcomes.

Our comments on the specific consultation topics are set out below.

1. Disclosure principles.

a) Provide your comments on our proposed disclosure principles, including any other principles we should consider.

[1] Visit www.faircanada.ca for more information.

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Protecting the investing public should be a standalone principle

We believe that protecting the investing public is a critical disclosure principle when evaluating potential changes.

Currently, it is subsumed under the principles of "timeliness" and "public accountability." Given its importance, and CPAB's mandate to protect the investing public's interest, it should be a standalone disclosure principle.

Timeliness of Reporting and Remediation

We agree that timely reporting and remediation of audit deficiencies are critical.

From an investor's perspective, it is important that any audit deficiency that may raise questions about the reliability of an issuer's financial reporting be flagged as soon as possible to avoid ongoing harm. This would be facilitated by making it mandatory to disclose an individual audit file inspection to the reporting issuer's audit committee. This would enable the audit committee and/or issuer to assess whether they are meeting their disclosure obligations under securities laws.

Ensuring that individual audit firm inspection reports are published in a timely way is also a critical consideration when evaluating potential changes. In our view, a firm should not be able to endlessly negotiate the findings or wording of CPAB's report - the report should be published as soon as possible after the inspection is carried out.

We understand that in jurisdictions that publish individual audit firm inspection reports, negotiation over the findings/wording of reports often leads to lengthy delays in publication, sometimes as long as two years. Such delays significantly undermine the value and utility of publishing these reports.

Ensuring investors are clear on what the disclosure means

We recognize that with any proposed additional disclosure, there is a risk that investors and markets may misunderstand its implications or draw inappropriate conclusions from the reporting. For example, whether financial statements audited by a firm inspected by CPAB can still be relied on when CPAB flags concerns with a firm's quality management systems. Or they may draw incorrect conclusions about the audit firm more generally, beyond what is reported.

When evaluating potential changes, CPAB should strive to minimize these risks as part of its disclosure approach. We believe these risks should be manageable by including appropriate cautionary language and explanations. The potential risks are not, however, on their own sufficient justification for not providing additional disclosure and enhancing CPAB's reporting.

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2. Communication to audit committees

a) Should CPAB pursue the 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?

Yes, we believe it is important that CPAB pursue amendments to its Rules to make this sharing mandatory.

Currently, a substantial proportion of individual audit file inspection results are not shared with the relevant audit committee under the existing voluntary *Protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees* (Protocol). For example, in 2020, about 30% of files with "significant findings" were not shared with the relevant audit committee. In 2019, about 25% were not shared. In our view, these rates undermine public confidence in the voluntary Protocol.

We also note that in 2020, only 9 of the 11 firms inspected by CPAB were participants in the Protocol. Again, the lack of participation suggests the investing public's interest is not being well served by a voluntary approach.

We believe that all audit committees should receive the results of individual file inspections as it is directly relevant to their role within our regulatory system. In short, mandating disclosure 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 understand that some audit firms may not currently share the results because the results may not raise significant issues for the reporting issuer's financial statements. Or perhaps the audit firm feels the results may be misunderstood by an audit committee that lacks sophistication or experience. In these circumstances, additional effort may be required by the audit firms to educate and explain the process and the relevance of any findings by CPAB.

However, we do not agree that this justifies withholding the results of individual audit file inspections from audit committees. The better approach should be to err on the side of disclosure and empower the audit committee to judge the relevance of the information or seek to clarify any potential issues.

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b) Should this sharing of information be mandatory for all reporting issuers? Why or why not?

Yes, we believe it should be mandatory for all reporting issuers.

As noted above, we understand some audit firms may be reluctant to share the results with audit committees that may have less knowledge or experience with audit procedures and CPAB's work. Broadly speaking, this reluctance may be more pronounced in respect of audit committees of venture issuers, who are exempt from financial literacy requirements because of challenges these issuers may have in recruiting directors.

While we acknowledge there is merit in applying proportionality in regulatory requirements in some situations, we do not believe this is one of them. In our view, disclosure should be mandated for all reporting issuers, including venture issuers. Again, given the important role that audit committees play, as well as the importance of CPAB's audit file inspections, we believe all audit committees should receive the results.

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.

Yes. We believe there is merit in allowing CPAB to make such disclosure as it could raise general awareness of how audit firms are carrying out their work, particularly for the reporting issuer community considering new audit engagements.

Disclosure may also be helpful in nudging audit firms to continually improve and keep pace with their "best-in-class" competitors.

However, while such disclosure has several benefits, we also acknowledge it comes with certain risks. For example, investors 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.

We believe these risks can be addressed through supplemental cautionary language and explanation in the disclosure. This could be achieved, for example, by including the following information:

- **Explain the sample selection methodology:** Clearly and plainly explain the risk-based approach used to select the sample of files that were reviewed, noting that the methodology identifies audits that have the highest risk of a material error or misstatement.

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- **Explain how to interpret the results:** Indicate the size of the sample relative to the number of audits typically completed by the audit firm over the relevant period and that the sample is not representative of a firm's audit work.

- **Include a link to more detailed information**: Similar to the U.S. Public Company Accounting Oversight Board's "What an Audit Deficiency in an Inspection Report Does and Does Not Mean", CPAB could provide similar information to ensure the readers have a clear understanding of the firm's inspection procedures.

b) What type of information would be most useful and how would this information be used?

From the investor perspective, the names of individual audit firms with "significant findings" (as defined in the Protocol) would be useful information and should be disclosed. This should include a description of the nature of those findings, together with any recommendations made by CPAB, and any remediation undertaken by the audit firm.

Disclosure along these lines would:

- **Promote improved audit quality:** Audit firms will be subject to increased scrutiny and accountability which would foster improved audit practices.

- **Better protect investors:** Increased awareness of significant findings for an audit firm could cause other audit committees that retained that firm to consider whether those findings might be applicable to their situation, including whether they need to review their financial statements.

- **Better align with international practice:** As outlined in the consultation, CPAB publicly discloses far less information that its counterpart in other highly developed capital market jurisdictions. This includes the U.S., which publicly discloses all individual audit firm inspection reports, the U.K., which currently publishes individual audit firm inspection reports for each major audit firm, and Australia, where individual audit firm inspection reports for each of the largest 6 firms are made public.

We also believe that protecting the investing public's interest requires disclosure, at a minimum, in cases:

- where there is enforcement action being taken; and/or
- where the report has identified potential material misstatements such that a re-statement of the financial reports may be required.

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c) Should these disclosures be provided for all inspections of Participating Audit Firms?

As outlined above, there are certain minimum situations where disclosure of private individual audit firm inspection reports should be required. However, we believe that it is better to promote consistency and seek to disclose these reports for all inspections of participating audit firms to ensure a level playing field.

4. Disclosures related to CPAB's enforcement actions

a) How would you use information about CPAB's enforcement actions?

Investors would likely use enforcement information to gauge how comfortable they are on relying on a particular reporting issuer's financial statements.

b) Should CPAB's disclosures about enforcement actions apply to all enforcement actions or be focused on specific (categories/types) breaches of professional standards?

While some enforcement actions might be more relevant to investors than others, we believe information regarding all categories/types of enforcement action should be published.

This should include, at a minimum:

- the name of the audit firm;
- a description of the enforcement action and the reasons for the action;
- details regarding any potential material misstatements in financial reporting; and
- any remediation undertaken by the audit firm.

Again, any risks of investors misinterpreting disclosed enforcement information could be addressed by clearly communicating what conclusions can and cannot be drawn from it.

If CPAB ultimately decides to take a more restrictive approach to disclosure of this information, then at a minimum, we recommend:

- requiring disclosure of all sanctions and "continuing restrictions"; and
- publishing detailed criteria for exercising CPAB's discretion to publish any other types of enforcement actions (see for example, the criteria in the U.K.'s Publication Policy (Audit Enforcement Procedure).

Criteria would include consideration of whether publication would:

- help maintain public confidence in financial reporting;
- protect investors and other users of financial statements; and
- act as a deterrent against misconduct.

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Conclusion

Audit quality is an essential element of investor protection in our regulatory framework. Equally important is that CPAB be able to provide information to the public to promote investor protection and greater transparency and accountability on the part of auditing firms. We support CPAB's efforts in this respect and thank you for the opportunity to provide our comments and views in this submission.

We would be pleased to discuss our submission with CPAB should you have questions or require further explanation of our views on these matters. Please contact me at jp.bureaud@faircanada.ca.

Sincerely,

Jean-Paul Bureaud,
Executive Director
FAIR Canada

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Glenidan Consultancy Ltd.

To whom it may concern, July 31st, 2021

I am pleased to provide my thoughts regarding enhancing the mandate of the Canadian Public Accountability Board (CPAB) to improve the public's confidence in the accounting profession in general and the external auditor in particular. The CPAB has identified six areas under review in the Consultation Paper and I have responded to these matters below.

I would like to impress upon the CPAB the fundamental principle of transparency. Transparency trumps all other objectives when it comes to appropriate business behaviour. Without transparency then conflict of interest, fraud and material mistakes flourish. Transparency is the most effective means of establishing integrity and underpins, along with an independent judiciary, our democracy. When a society, an organization or an individual is not transparent then problems will arise.

As far as the remit of the CPAB is concerned I would like to see transparency regarding publishing the findings. I am an advocate of not only identifying the offending auditing firm but also the name of the lead partner on the engagement. The accounting profession - for example the Chartered Professional Accountants of Ontario - publishes disciplinary notices regarding members who do not act appropriately. By publishing the names of offending partners and firms then all parties, including the Audit Committee, are aware of the offenders. The Audit Committee can then monitor the performance of the auditing firm or replace them.

The most important issue facing the auditing profession is the damage caused to society when the auditor does not detect fraud. Some Canadian examples, amongst many, that have been reported in the business papers lately are Thrive Capital Management Ltd, Bridging Finance Inc., Quadriga Finteck Solutions, Paramount Equity Financial Corporation (Paramount) and Fortress Real Development Inc (Fortress). Canadian retail investors in these companies have suffered unrecoverable financial losses. Some well-know recent international examples include Wirecard AG & Parmalat S.p.A. The result of these frauds has led to an erosion of trust in the efficacy of the audit report. As Sir Donald Brydon noted, in a UK report titled Fraudulent Financial Reporting and the Role of Auditors, fraud is "the most complex and most misunderstood in relation to the auditor's duties".

Why are the auditors not detecting fraud in a timely manner? As with anything that is complex there are many reasons for this. In order to evaluate the external auditor it is important to consider that:

(1) The external audit is focused on the financial statements. Many frauds perpetrated have a significant operational component which may not fall under the purview of the audit. Traditional auditing methodologies may not be designed to detect these transactions.

(2) The engagement letter between the external auditor and the client often states that the auditor is not responsible for detecting fraud; rather this is management's responsibility. Given that it is usually management perpetrating the fraud this has the perverse effect of absolving all parties from fraud prevention and detection.

(3) Collusion amongst fraudsters, although not as common as the single perpetrator fraud, makes fraud detection more difficult. Most internal controls in an organization are designed to prevent the single perpetrator fraud but do not address collusion.

(4) Corporations are becoming increasingly complex and external parties are at a disadvantage when trying to understand how transactions flow from origination to disclosure in the financial records. Various administration and accounting systems, with varying degrees of automation, are susceptible to deliberate or unintentional alteration.

(5) The whistleblower, who is responsible for detecting most frauds and is usually an employee within the offending organization, is often ostracized by management. Often the whistleblower must persist with their claims before they are taken seriously. Very rarely does the whistleblower contact the external auditor.

(6) When frauds are uncovered there are almost always conflict of interest issues with management. It is tempting, and often easy, for management to abuse their responsibilities especially if there is poor governance oversight. Conflict of interest, unless declared by the principals involved, can be difficult to detect.

(7) One industry-wide concern for the auditing profession is fee pressures from clients which results in reduced audit procedures. For example, most audits employ a substantive based audit that focuses on period end balances and ignores an understanding of the internal controls. Evidence suggests that substantive based audits have a low rate of fraud detection. In my opinion it is not appropriate that the external audit function does not confirm, for example, segregation of incompatible functions in order to prevent a fraud in the first place.

(8) Limited partner involvement during the audit. I have observed that the audit partner has limited involvement with the audit during the planning and execution phases of the audit; rather their attendance is limited to the final closing meetings. In my opinion this is too late in the process of understanding the client and how the audit staff addressed the financial statement risks. I understand that partners are expected to generate new business and this pressure may be affecting their availability to attend to existing clients.

(9) Inexperienced and poorly trained audit staff. This item is related to point 8 above. If the partner on the engagement is not providing on the job guidance then audit staff have to improvise. This contributes to inconsistent file documentation and inadequate audit procedures.

One matter that the CPAB has highlighted is that documentation in the audit files was deficient. In my opinion this is a serious problem for the profession. Apparently the auditor was relying too much on management and not seeking third party corroboration to support an independent assessment of the evidence.

If an auditor is not verifying the evidence then it is not possible to detect a fraud or financial statement errors. The raison dêtre of an audit is to seek third party, objective evidence to support management's assertions. This is the fundamental reason for an audit in the first place. Unless the auditor is fulfilling this objective there is no point in the audit. If an auditor does not understand how to perform a bank reconciliation, why attendance at an inventory count is important, how to identify source documents that support or refute management's reports then there are significant training and oversight processes that are lacking at the auditing firm.

I am of the opinion that there should be no half-measures when it comes to protecting society - the investor and consumer - from unscrupulous parties. The audit function is an important component of this objective and those, hopefully limited, examples of incompetence by reporting issuers uncovered by the CPAB should be put on public display.

I have reviewed the six areas under review in the Consultation Paper and I trust that, although I have not answered the questions in the order proposed, I have answered your questions.

Although the CPAB has not asked this question I am sure the reader will observe that I have highlighted a number of concerns with the auditing profession that are resulting in the findings highlighted by the CPAB. Until these underlying issues are addressed the CPAB will continue to identify failings which impede an effective audit. Any influence that the CPAB has on this broader issue would be welcome.

Philip Maguire, *C.P.A., C.A.*
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416-262-6649

Grant Thornton

Raymond Chabot Grant Thornton

September 30, 2021

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Ms. Carol A. Paradine FCPA, FCA
Chief Executive Officer
Canadian Public Accountability Board
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VIA Email: consultation@cpab-ccrc.ca

Dear Ms. Paradine,

On behalf of Raymond Chabot Grant Thornton LLP and Grant Thornton LLP (together "Grant Thornton"), thank you for the opportunity to provide our views on the potential changes to information disclosed on the results of the Canadian Public Accountability Board's ("CPAB") regulatory assessments. The views below represent the combined opinions of the Grant Thornton International member firms operating in the Canadian market.

Existing CPAB assessment process

When evaluated in the context of CPAB's stated mission to "promote sustainable audit quality through proactive regulatory oversight", based on our experience, we believe that CPAB's current inspection process aligns well with its stated mission. Specifically, we believe that CPAB's regulatory assessment process is rigorous, transparent, executed with professionalism, and has been effective in driving change and improving audit quality. Specifically, we have the following observations that align with the disclosure principles outlined in CPAB's consultation:

- Improvement in audit quality: At Grant Thornton, we understand that our reputation is built on the quality of our work. The results of CPAB's regulatory inspection process are provided the highest priority through to the most senior levels of our organizations. Carefully considering and leveraging CPAB's results, we develop an action plan, with transparent accountabilities, aimed at driving sustainable improvements to engagement quality. In our view, this aligns well with protecting the public interest.
- Timeliness of CPAB's reporting and remediation of audit deficiencies: One of the elements that Grant Thornton values most in the CPAB process is its timeliness. It is our view that the timeliness of CPAB's current regulatory process specifically aligns with serving the public interest. In the model implemented today, any audit deficiencies can be identified and remediated prior to the execution of the subsequent year's audit. Recognizing nuanced regulatory differences across the globe, this level of timeliness is not always possible in other jurisdictions. We would recommend a formal cost/benefit evaluation of any recommendations that may negatively impact the timeliness CPAB's current process.

Communication to audit committees (The Protocol)

Since its inception, Grant Thornton has been pleased to participate in the voluntary Protocol for Audit Firm Communication of the Canadian Public Accountability Board (CPAB) Inspection Findings with Audit Committees (the "Protocol"). In our experience, the Protocol has been effective in assisting audit committees in conducting their oversight responsibilities in evaluating the quality and effectiveness of the audits performed.

We would be supportive of CPAB's Rules being amended to make the sharing of the results of individual audit file inspections with the audit committee mandatory, as this would improve the consistency of information received by audit committees and better equip them to fulfil their governance responsibilities.

Disclosure of the results of CPAB's regulatory oversight activities and disclosure of enforcement actions

CPAB's Consultation appropriately identifies the risk for audit firms with a relatively small number of engagements inspected on an annual basis should the disclosure of the results of CPAB's inspections be publicly disclosed. A single file with a deficiency can result in significant fluctuations in the overall deficiency rate for a given audit firm. We do not believe the additional disclosure provides meaningful incremental information to stakeholders, particularly where the small number of engagements inspected can result in significant variations in deficiency rates and where the disclosures may not include important context around both the nature of the deficiency and the nature of CPAB's risk-based approach to engagement selection.

In our view, audit quality cannot be defined by a single data point. We question if this proposal may result in the potential for inconsistent or inaccurate interpretation of CPAB's inspection results across stakeholders of the Canadian capital markets. We believe there is a high risk that the proposed additional disclosure could be taken out of context, which could have unintended consequences to firms providing high quality audits. This has the potential to negatively impact access to audit services of reporting issuers and the public interest overall. It is our view that additional academic research may be warranted in this area before a final recommendation is evaluated.

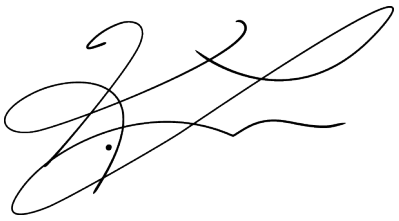
We also understand and strongly support the need to protect the investing public's interest. In situations of egregious breaches of professional standards that result in the risk of harm to the investing public, we agree that public disclosures of the enforcement actions should be evaluated. It is our understanding that provisions of such disclosure are provided for in CPAB's current Rules and legislation. We would be supportive of the development of a disclosure framework, leveraging the existing Rules, that could be consistently applied in CPAB's inspection process. In our view, public disclosure of enforcement actions regarding instances or events representing the greatest risk of harm to the public interest will achieve cost / benefit balance.

Evaluation of Canadian Capital Markets unique characteristics

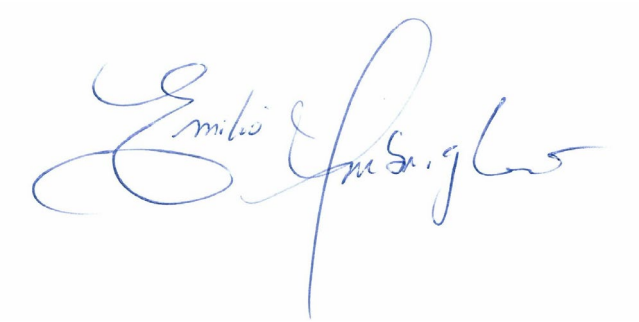
We recommend that all elements presented in the consultation be assessed and evaluated in the context of the Canadian Capital Markets. While there are best practices across the globe that can be leveraged, additional tailoring is likely required in order to ensure that they are considered within the context of our unique domestic capital markets. Just one such example, with existing precedence in Canadian Securities Regulations, is the evaluation of different practices / recommendations for inspection results of venture issuers. As the results of the consultations are summarized and compiled, we would encourage the evaluation of the scalability and the cost/benefit of recommendations.

Thank you again for the opportunity to provide input into this consultation. We would welcome any opportunity for further consultation with CPAB or other stakeholders on the elements of the consultation when needed. As part of our uncompromising commitment to the highest levels of audit quality, we look forward to our continuing dialogue on audit quality in the Canadian marketplace.

Respectfully submitted,



Kevin Ladner
Executive Partner and Chief Executive Officer
Grant Thornton LLP



Emilio Imbriglio
President and Chief Executive Officer
Raymond Chabot Grant Thornton LLP

September 29, 2021

VIA EMAIL: consultation@cpab-ccrc.ca

Canadian Public Accountability Board

RE: Joint submission on potential changes to the Canadian Public Accountability Board ("CPAB") regulatory disclosures

Deloitte LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP are pleased to respond to CPAB's July 19, 2021 request for input into the potential changes on regulatory disclosures. We are supportive of CPAB's efforts to increase transparency, and provide the following comments with the goal of working collaboratively with CPAB to ensure that regulatory changes improve sustainable audit quality and protect the public interest.

As noted by CPAB, any changes to CPAB's regulatory disclosures will require reviews and revisions of the relevant provisions of the *Canadian Public Accountability Board Act* ("**CPAB Act**") and CPAB Rules, as well as other applicable rules and legislation. In addition, we note that changes may necessitate revisions of client engagement terms, including for example, any confidentiality or reporting provisions. For these reasons, if CPAB decides to move forward with its proposed changes, including amending its Rules, after this initial consultation and after considering the consequences of such proposed changes, we would appreciate the opportunity to participate in discussions and provide further submissions.

1. Disclosure Principles

a. *Comments on CPAB proposed disclosure principles including any other principles CPAB should consider.*

We support CPAB's disclosure principles of improvement in audit quality, timeliness of CPAB's reporting and remediation of audit deficiencies, public accountability, and the costs versus benefits of any potential changes. We believe that increasing transparency around audit practices will assist in delivering high quality audits and enhancing trust. This will drive greater accountability for auditors, reporting issuers, and regulators, and boost the public's understanding of the role and independence of audit firms.

We provide the following comments in regard to the principles for consideration:

i. Meaningful and relevant disclosure: As CPAB notes in its consultation proposal, there is a risk that the nature and extent of CPAB's review will be misunderstood. We agree that this is a significant risk and believe that countering it should be a priority in the development of any format or process for CPAB disclosure. It should be a primary objective of any disclosure changes that disclosed information is put clearly in context and in a manner that the user can understand. In particular, we agree that as part of any disclosure, CPAB should explain that its risk-based methodology for choosing files for inspection is not likely to be representative of a firm's entire audit engagement portfolio and instead focuses on the most complex sections of a file with greater risks of material misstatement.

ii. Consistency of disclosure: In comparing any proposed CPAB disclosure changes to other Canadian and international regulators, it will be important to consider not only the disclosure standards of other regulators, but also the underlying processes utilized by those regulators. For example, a regulatory system involving more formalized and quasi-judicial hearing and adjudication processes may warrant very different disclosure than a more flexible, informal, consultation-based regulatory oversight system and may therefore not be properly comparable.

iii. Protecting confidentiality of audit clients: In a reflection of CPAB's mandate to oversee audit firms, while we support changes to the disclosure of CPAB's oversight work, we believe that it is of the utmost importance that any regulatory disclosures maintain the confidentiality of reporting issuers and our clients. Protecting audit clients' confidentiality will guard against potential harms, including the release of confidential information, market disruption, and exposures to private or class action litigation based on any reported deficiencies. By extension, protecting confidentiality will help ensure that reporting issuers and our clients continue to have confidence in the regulatory process, and by extension in the audit process, and to provide full and frank disclosure to their auditors. All of this promotes audit quality. We are also mindful of audit firms' duties to maintain confidentiality under the CPAB Act[1], the *Chartered Professional Accountants of Ontario Act, 2017*[2], and the CPA Code of Professional Conduct[3]. Engagement agreements between the audit firms and their clients also often contain confidentiality provisions. For all these reasons, we believe that it is critical that any disclosure changes ensure that confidentiality of reporting issuers will be protected. These protections should encompass both the risk of express disclosure of the identity of reporting issuers and the risk of indirect or "constructive" disclosure of identifying information that would permit third parties to identify a reporting issuer.

Overall, we are committed to the above disclosure principles to help ensure public confidence in the effective and independent oversight of Canadian audit firms and, in turn, the Canadian financial reporting system.

2. Communication to audit committees

a. Should CPAB pursue amendment of its 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?

We are supportive of CPAB amending its Rules to make the sharing of results of individual audit file inspections with the audit committee mandatory across all audit firms. As voluntary participants in CPAB's Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (the "**Protocol**"), we believe that transparent communications with the audit committee is important.

b. Should this sharing of information be mandatory for all reporting issuers? Why or why not?

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[1] *Canadian Public Accountability Board Act (Ontario), 2006*, S.O. 2006, c. 33, Sched. D, s. 11(2).
[2] *Chartered Professional Accountants of Ontario Act, 2017*, S.O. 2017, c. 8, Sched. 3, s. 60(1).
[3] Chartered Professional Accountants, Code of Professional Conduct, s. 208.

We believe the proposed sharing of information should be mandatory for all reporting issuers. We do not believe that differences with respect to reporting issuers, such as the size of an issuer, the exchange the issuer is listed on, or the nature of the entity, significantly change the importance of audit quality, the role of the audit committee or equivalent body, and the importance of the auditor's role. Although there may be varying levels of financial reporting sophistication of reporting issuers, the disclosure of inspection results would at minimum prompt a discussion of the inspection process and findings with the reporting issuer and those charged with governance, and would promote a focus on efforts to improve audit quality.

3. Disclosure of the results of CPAB's regulatory oversight activities

a. Should CPAB pursue amendments of its Rules to allow for disclosure of findings by individual firm? Please explain.

We agree that there is an increased desire for more transparency around inspection results in Canada for firms. We believe meeting the desire for enhanced transparency is necessary to maintain trust and confidence in the profession in Canada, and for this reason we support the proposed disclosures of findings by individual firm.

Although we are supportive of this proposed change, there are a few considerations we would note. First, as stated above, disclosure should not include findings that would identify any given reporting issuer, whether expressly or based on inference from the other disclosed information. In addition to the reasons we noted above in our discussion of disclosure principles regarding confidentiality and openness, disclosure of information at the reporting issuer level may also result in higher costs from including another level of detailed information and reduced timeliness in the completion of CPAB's reviews.

Second, disclosure on an individual firm level must be made consistently across all audit firms. This means that if CPAB discloses firm-level findings, it must do so for all firms and a firm cannot elect to refrain from publicly reporting their inspection results. If CPAB discloses firm-level findings for some firms and not others, this could lead to inconsistent disclosure and a lack of comparability, thereby undermining investor confidence. Additionally, if CPAB discloses firm-level findings for some firms and not others, investors may incorrectly assume that firms for which no disclosure was made are of superior quality with no negative findings. This would have a negative effect on both audit quality and market confidence.

Third, before any public disclosures of findings by individual firm, firms should be permitted and be given sufficient time to respond to the results of the findings. Currently, an inspected audit firm has 30 days to respond to CPAB's draft inspection report.[4] The audit firm then has 15 days to review and respond once the CPAB provides a revised draft inspection report.[5] We believe that in considering disclosure changes, CPAB should consider that there is a connection between the extent of disclosure of findings, and the procedural fairness of the process used to arrive at those findings. In the event that CPAB publicly discloses inspection findings of any individual firm, such firm should be permitted to respond to the disclosure to provide context to the public. Concurrently with this proposed change, CPAB should also consider the reasonableness of the time for firms to respond and weigh this against the need for timely reporting and remediation.

[4] Canadian Public Accountability Board Act Rules, r. 409 [CPAB Rules].
[5] CPAB Rules, r. 410.

Finally, if CPAB discloses the results of inspections findings on an individual firm level, the audit firms should be able to disclose those same inspection findings in their own reports to their clients in order to facilitate dialogue with its stakeholders.

b. What type of information would be most useful and how would this information be used?

The information that would be useful to disclose to the public includes the number of reporting issuers audited by the audit firm and the number of files with significant inspection findings. We also believe that the disclosure of themes and issues across the firms is important information to identify possible systemic or emerging issues and the specific audit deficiencies being identified.

Consistent with the Protocol, we believe that only significant inspection findings should be included in any public disclosures. If non-significant findings are disclosed, investors and the public may not be able to assess or differentiate the significance of the inspection findings, which may lead to confusion.

While disclosure of a firm's system of quality management ("**QMS**") evaluations may provide useful information, the incorporation of QMS into CPAB's inspection methodology is still relatively new. Additionally, the impending move to International Standard on Quality Management ("**ISQM 1**") will create additional change that would have to be addressed in any disclosure model. As such, we believe that the results of QMS should not be included in CPAB's reporting or public disclosures at this time and we suggest that further consideration is required as to the nature and extent of such disclosures.

c. Should these disclosures be provided for all inspections of Participating audit firms?

If CPAB publishes inspection findings on an individual firm level, the disclosures should be provided for all inspections of Participating Audit Firms in order to provide consistent and relevant information.

4. Disclosures related to CPAB's enforcement actions

a. How would the information about CPAB's enforcement actions be used?

While we understand this question to have not been primarily directed to audit firms, we note that we would consider disclosed information about CPAB's enforcement actions against other firms to identify any issues or considerations related to the performance of audits, audit quality, and professional requirements. We would also use this information to determine if additional focus in terms of training, monitoring, or guidance is required.

b. Should CPAB's disclosures about enforcement actions apply to all enforcement action or be focused on specific (categories/types) breaches of professional standards?

We believe CPAB should not disclose all enforcement actions. Disclosing all breaches without any consideration of the severity and the risk of harm to the investing public could lead to several unintended consequences, including increased costs, delays in finalizing conclusions, and disclosure of information that is not meaningful or that could be misinterpreted or misunderstood.

As CPAB notes in its consultation notice, if a firm engages in conduct which violates professional standards that may impact audit quality, CPAB has the authority to impose enforcement actions, including a "Requirement, Restriction or Sanction". While we support the disclosure of such enforcement actions, we suggest that CPAB provide additional guidance on the three enforcement actions, including information about the differences between the three actions, in order to clarify what types of enforcement actions and breaches will be disclosed.

Any disclosures should be designed to protect procedural fairness, and it is possible that the changes under consideration may require amending the Rules to ensure enhanced procedural fairness mechanisms. For example, under the current CPAB Rules, if CPAB considers a "violation event" has occurred, CPAB may propose requirements, restrictions or sanctions for the audit firm.[6] If there are enhanced enforcement disclosures, a "violation event" should be proven instead of being determined to have occurred by the CPAB alone. Further, procedures relating to review proceedings under Section 700 of the CPAB Rules should be reviewed and considered. CPAB should consider disclosing enforcement actions only after a matter has been finally adjudicated. CPAB would also need to provide more clarity on the arbitration rules and appeal rights. In comparison, the Public Company Accounting Oversight Board ("**PCAOB**") Rules require a statement of allegations, an ability for the audit firm to provide a responding defence, discovery-related procedures, and set procedural rules relating to hearings.[7]

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

CPAB should consider whether enhanced disclosures may have impacts on audit firms' willingness to take on riskier clients or industries, the competitiveness of the audit market, and the profession's ability to retain and attract quality candidates.

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

CPAB should consider a further or enhanced review/appeal process for audit firms that do not agree with a particular finding or disclosure.

* * * * * *

We appreciate this opportunity to submit our responses to CPAB's proposed disclosure changes. We would be pleased to participate in any further consultations and provide submissions as requested.

Best regards,

Deloitte LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP

[6] See CPAB Rules, r. 601.
[7] See PCAOB Rules, "Section 5. Investigations and Adjudications".

Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

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.

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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,

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.