Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

NOVEMBER 2025

CPAB Smaller Firm Series: Public Company Audit Summits

In the fall of 2025, the Canadian Public Accountability Board (CPAB) hosted Public Company Audit Summits in Toronto, Vancouver and Montreal as part of its focus on fostering an environment that supports improved audit quality at smaller firms. The purpose of the in-person Public Company Audit Summits was to provide an opportunity for audit practitioners to gain insights about emerging risks, using case studies to illustrate recent inspection findings and audit quality themes.

CPAB has developed this publication to share insights from the events, including the illustrative scenarios that were presented, as well as key takeaways to help keep the conversation going.

Key takeaways from CPAB's Public Company Audit Summits:

The CPAB Public Company Audit Summits brought together 129 auditors representing 45 firms from across Canada, alongside distinguished panelists and members of CPAB's Board of Directors. Participants provided positive feedback regarding the opportunity to discuss and consider inspection themes tailored towards smaller audit firms.

Location	Panelists	CPAB Board
Toronto	Barbara Boyd Janet Gillies Shawn Kelso	Kevin Kelly
Vancouver	Anita Cyr Erez Bahar Grant Smith Richard Konings	Alice Laberge
Montreal	Geneviève Beauchemin Bruno Dumais Josianne Duval	Richard Payette

One of the main themes discussed was the importance of a thorough and iterative risk assessment in performing a high-quality audit. Identifying and assessing the risks of material misstatement is foundational to the audit; it enables teams to design and execute audit procedures that are responsive to the risks of material misstatement, whether due to fraud or error.

The summit highlighted that an in-depth understanding of the entity and its environment, including its system of internal control, is critical to ensure all relevant risks are identified, assessed and responded to. This includes obtaining an understanding of:

- The end-to-end business processes, including the nature and extent of services provided by third parties.
- The entity's information technology (IT) and evaluating the importance of those controls in maintaining the financial information for the entity.

This understanding is essential to identifying and determining if there are risks for which substantive procedures alone will not provide sufficient appropriate audit evidence. Risk assessment is an iterative process, and the auditor is required to evaluate the impact on the audit approach when new information is identified that is inconsistent with the audit evidence on which the auditor originally based their risk assessment.

The scenarios highlighted that high-quality audits begin with a robust system of quality management and emphasized the importance of the following firm level activities:

- Critically assessing client acceptance and continuance decisions to be satisfied that the firm has the resources, skills, and experience necessary to handle the complexities of each engagement.
- Encouraging a firm culture that promotes speaking up and proactive risk identification.
- Performing timely and objective root cause analyses enables the audit firm to make continuous and iterative improvements to their system of quality management by implementing action plans.

Illustrative scenarios

The scenarios presented are based on actual significant inspection findings[1] at smaller audit firms. Facts have been modified or excluded to protect the identity of the reporting issuers and audit firms. These scenarios focus only on specific assertions and the audit areas presented.

Scenario one

Background

A reporting issuer engaged in wholesale distribution conducts its sales through a third-party e-commerce provider (third party). The third party is responsible for warehousing, shipping and providing monthly fulfilment reports to management. At year end, the inventory balance was approximately 20 times materiality and the inventory was held entirely by the third party.

Audit approach

The engagement team identified a risk of material misstatement over the existence of inventory. The primary audit evidence obtained included a confirmation from the third-party containing the amount and condition of inventory at the end of the year. The engagement team also reconciled the confirmation to the monthly fulfilment report received by management.

Findings

The engagement team did not design and perform sufficient risk assessment procedures to support the identification and assessment of risks of material misstatement related to the existence of inventory.[2] The engagement team's audit approach placed reliance on the third party's controls to store, safeguard, and manage inventory as well as to maintain accurate records of the inventory balance without appropriate evaluation and testing. There was also an insufficient evaluation to demonstrate how the engagement team was satisfied that no additional procedures were necessary, given the size and magnitude of the inventory balance.[3]

Examples of risks not identified and assessed by the engagement team, resulting in insufficient audit evidence obtained, include:

- Inventory is not appropriately separated resulting in unclear rights and obligations for each entity that uses the third party.
- Inventory balances are misstated due to inaccurate reports obtained from the third party's systems.

[1] A significant inspection finding is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach.

[2] CAS 315, paragraph 13.

[3] CAS 501, paragraph 8; CAS 505, paragraph 16.

Examples of additional procedures performed to remediate the findings:[4]

- Walkthrough of the end-to-end inventory process that includes an understanding of the relevant controls at the reporting issuer and the third party.
- Evaluate whether the relevant management controls to oversee the third party are appropriately designed and implemented. For example, the periodic reconciliation between the third party's fulfilment reports and the reporting issuer's records.
- Analyze the contract to obtain an understanding of the nature of the services provided, relevant terms, and the rights and obligations of each party.
- Attend the inventory count at the third-party warehouse to confirm the existence and condition of inventory at the end of the year.[5]

Scenario two

Background

An online web platform earns revenue by providing customers with access to downloadable digital content that is hosted on an in-house IT system. The IT system applies an automatic markup on each transaction, which varies depending on the digital content purchased. Revenue is recognized once the performance obligation is complete, which is when the customer downloads the digital content (content can only be downloaded once). The processing of revenue transactions is highly automated with no manual intervention. The entity uses a service provider to collect payment and receives monthly batch payments.[6]

Audit approach

The engagement team identified a significant risk of material misstatement relating to the occurrence, accuracy and completeness of revenue. They performed a walkthrough of the revenue process after year-end by reperforming the process for a single customer with a single type of digital content. This walkthrough was performed by the engagement team, and no IT specialists were used. The engagement team used a substantive only approach to test the revenue account. The audit evidence obtained consisted of tracing samples of completed transactions (selected from system generated reports) that were traced through to a batch bank deposit. The engagement team also recalculated the revenue for each transaction selected and reconciled the transaction from the sales system to the general ledger.

[4] Procedures are illustrative in nature and should not be considered an exhaustive list.

[5] CAS 501, paragraph 8.

[6] The service provider was not a focus in this scenario. For further insights into use of service organizations, refer to our publication: Audit considerations relating to an entity using service organizations: strengthening audit quality.

Findings

The engagement team's identification and assessment of the risks of material misstatement related to revenue was based on an incomplete understanding of the reporting issuer's system of internal controls.[7] There was no consideration as to whether there are risks for which substantive procedures alone were not sufficient because of the entity's use of highly-automated and paperless processing of transactions.[8] Where the audited entity relies on general IT controls (GITCs) and automated controls to maintain the integrity of the transactions processed and other information used in processing, the IT applications involved are likely subject to risks arising from the use of IT. The engagement team did not identify any risks arising from the use of IT, as such, they did not design audit procedures and obtain audit evidence to support the reliability of the system-generated reports or address the possibility that system changes could lead to errors in processing transactions. As a result, the nature and extent of testing performed by the engagement team, including the walkthrough of a sample of one IT-automated control, was insufficient because it relied on the effectiveness of the GITCs (which were not tested) and did not identify and test all the relevant IT automated controls.

The engagement team also relied on system-generated reports to vouch sample transactions to batch cash deposits, however this did not provide sufficient evidence that revenue was recognized appropriately, as cash receipts did not indicate that the performance obligation was met.

Examples of risks not identified and assessed by the engagement team, resulting in insufficient audit evidence obtained include:

- Transactions are not recorded completely due to system limitations, data integration issues or manual errors.
- Errors in processing revenue transactions caused by data integration issues or software errors are not identified.
- Access to transactional data is not authorized resulting in unauthorized or fraudulent transactions.
- System changes or updates are not tested or validated resulting in errors in processing transactions.

Examples of additional procedures performed to remediate the findings:[9]

- Involve an IT specialist to evaluate the design and implementation and operating effectiveness of relevant IT applications, including GITC's and relevant IT-automated controls (including audit evidence over the performance obligation of when customers download the digital product).
- Where control deficiencies are identified, evaluate these deficiencies and design procedures that are responsive to the risk identified.[10]

[7] CAS 315, paragraph 26.

[8] CAS 315, paragraph 33.

[9] Procedures are illustrative in nature and should not be considered an exhaustive list.

[10] Identified control deficiencies need to be considered as part of the auditor's assessment of the risk of material misstatement and should be communicated to management and those charged with governance (CAS 315, paragraph 17 and CAS 265, paragraph 5).

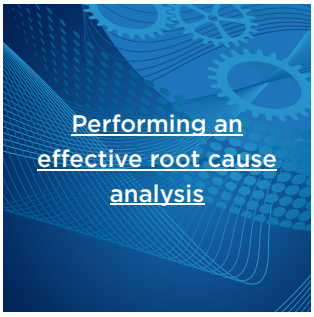
Additional resources

Illustrative scenarios

The materials developed for the summit leveraged concepts from recent CPAB publications. We encourage you to review these materials for additional insights:

System of quality management

The summit also highlighted considerations related to the firm's system of quality management and performing an effective root cause analysis. The presentations emphasized the critical role these have in enhancing audit quality. For further insights on these topics, refer to the following publications:



Refer to CPAB's website to stay informed on its latest projects and initiatives. Resources specific to smaller firms can be found on CPAB's Supporting Audit Quality at Smaller Firms webpage.

Learn more

Visit us at https://cpab-ccrc.ca and sign up for our e-newsletters. Follow us on LinkedIn and contact us at info@cpab-ccrc.ca.

Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes