



Canadian Public Accountability Board  
Conseil canadien sur la reddition de comptes

## **The Canadian Public Accountability Board seeks public input on regulatory disclosures**

### **We want to hear from you**

As Canada's public company audit regulator charged with protecting the investing public's interests, the Canadian Public Accountability Board (CPAB) oversees public accounting firms that audit Canadian reporting issuers. Our mission is to promote sustainable audit quality through proactive regulatory oversight. This work includes assessments of audit files and quality management systems of public company audit firms.

CPAB is requesting input into potential changes to the information that we disclose about the results of our regulatory assessments.

Understanding the views of our stakeholders is an important step in our policy-setting process. We encourage all stakeholders to participate in this public consultation – in writing, group discussions and/or by completing a short [survey](#). Additional details about how you can provide feedback are provided on our [website](#).

This document provides background on CPAB's disclosures and includes specific areas where we would like your input. Comments are requested by September 30, 2021. Earlier responses are appreciated. Responses should be sent by e-mail to [consultation@cpab-ccrc.ca](mailto:consultation@cpab-ccrc.ca) and will be made publicly available on CPAB's website unless respondents specifically request otherwise.

### **Why a consultation?**

The disclosure of CPAB's inspection findings and enforcement actions (including imposition of Requirements, Restrictions and Sanctions – enforcement actions on Participating Audit Firms<sup>1</sup>) is provided for in our Rules and legislation.

The rules and legislation impacting CPAB currently restrict the sharing of inspection findings for individual firms with the exception of specific circumscribed situations or with the consent of all impacted parties. CPAB last made a significant change to our disclosures in 2014 when we implemented the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol – a voluntary process to share inspection findings with audit committees).

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<sup>1</sup> A Participating Audit Firm (audit firm) is a public accounting firm that audits Canadian reporting issuers and is a registered participant in CPAB's inspection program.

CPAB is reviewing our 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.

### **Applicable rules and legislation**

The information that we disclose is impacted by a combination of our rules, provincial legislation (including securities legislation), and rules applicable to professional accountants and other professions. The rules and legislation can vary across our provinces and territories which will need to be taken into account as we consider possible changes to our disclosures. Examples of specific rules and legislation include:

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

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

In addition to the applicable rules and legislation, CPAB has a number of agreements and memoradums of understanding with the provincial and territorial securities commissions and provincial Chartered Professional Accountant (CPA) bodies which impact how we work together and to facilitate the sharing of information. These agreements will also need to be considered in determining our next steps.

CPAB's mandate does not extend to any entity other than Canadian reporting issuers. The CPA bodies in each of the provinces and territories in Canada are the qualifying and regulatory body for professional accountants including review of the quality of audits performed by CPAs in their region.

## Disclosure principles

CPAB will evaluate potential changes against several disclosure principles. We welcome input on these principles and others you might suggest. These include:

- Improvement in audit quality
  - Changes to our disclosures should be consistent with the objective of improving the consistency of audit quality across Participating Audit Firms.
- Timeliness of CPAB reporting and remediation of audit deficiencies
  - Our current approach is to direct immediate remediation of identified audit deficiencies and implementation of timely actions to close gaps in audit firm quality management systems. The timeliness of our response is important in protecting the investing public and is an important factor to consider in evaluating potential changes to our disclosures.
- Public accountability
  - As a regulator we are mindful of our responsibilities for public accountability of the results of our regulatory activities and our focus on protection of the investing public.
- Cost vs. benefit
  - We will carefully consider the potential cost of any changes to CPAB, Participating Audit Firms and reporting issuers as compared to the expected benefits in evaluating any potential changes to what we disclose.

Some changes could have different impacts across the different disclosure principles. In those cases, we may need to evaluate if there is a net benefit to a change (e.g., improvement in public accountability versus declines in the timeliness of CPAB reporting and firm remediation of audit deficiencies).

## Areas for consultation

This paper specifically consults on the following three areas of our disclosures.

1. Communication to audit committees.
2. Disclosure of the results of our regulatory oversight activities.
3. Disclosures related to CPAB's enforcement actions.

We are open to all suggestions including those that may require changes to our Rules or legislation to support implementation.

### 1. Communication to audit committees

The audit committee plays an important role in oversight of the external auditor. In 2014 CPAB implemented the Protocol which allows audit firms to voluntarily share 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 (more detail [here](#)). At the audit committee's request, CPAB will also meet with the audit committee chair and/or the entire audit committee to discuss the results of that review.

When the Protocol was established it was designed as a voluntary program. Our conversations with and surveys of audit committees indicate the Protocol has been successful in supporting the audit committee's role. To date, not all audit firms have registered to participate in the Protocol. As of

January 2021, of the 161 Participating Audit Firms that audit reporting issuers, 102 of those firms (representing 89 per cent of total reporting issuers) report CPAB's inspection findings to the respective audit committee (or those charged with governance) of their reporting issuer clients. Of the 35 files with significant inspection findings in 2020, 24 were reported to the audit committee under the Protocol (2019: findings shared with 35 of 47 reporting issuer audit committees).

We are seeking input on whether CPAB's Rules should be amended 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) mandatory. We are also interested in whether this sharing of information should be mandatory for all reporting issuers, specifically whether there should be a different practice for certain reporting issuers with different disclosure obligations in Canada such as venture issuers<sup>2</sup>.

In considering the disclosure principles, this change has the potential to improve audit quality and enhance the protection of the investing public by providing additional information to support the audit committee's oversight of the auditor. To date, the voluntary Protocol has not had a significant financial impact or delayed our inspections. Accordingly, we are of the view that mandatory disclosure would have limited impact on the timeliness of completion of inspections and remediation of inspection findings.

## **2. Disclosure of the results of CPAB's regulatory oversight activities**

CPAB's oversight of Participating Audit Firms includes the inspection of the audit files of individual reporting issuers and the review of audit firm quality management systems. CPAB's risk-based methodology for choosing files (and the specific areas of those files) for inspection is not intended to select a representative sample of a firm's audit work. Instead, it is biased towards higher-risk audit areas of more complex reporting issuers or areas where the audit firm may have less expertise.

Following each inspection, CPAB issues a report to the firm containing findings on quality control processes and individual file reviews and includes recommendations to improve audit quality which must be implemented within a specified time period. This report is not made public.

CPAB publishes the results of its regulatory reviews twice per year. These public reports provide a summary of firm level inspection themes, quality management systems assessments, recurring issues, trends and emerging issues. We do not identify the audit firms or reporting issuers whose audit files gave rise to the findings. CPAB does not publish its findings individually by firm.

There is a range of disclosure practices among audit regulators internationally. Many provide information on the inspection results of individual audit firms with a variety of approaches.

In considering the current environment including high rates of inspection findings, a demand for additional disclosures from our certain stakeholders and our public interest responsibility, a change to our disclosures in this area is likely warranted. Any changes to our disclosures would require changes to our Rules.

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<sup>2</sup> The definition of Venture Issuer can be found in National Instrument 52-102 Continuous Disclosure Obligations.

We are seeking input on whether and how CPAB's Rules should be amended to allow for disclosure of the results of our regulatory reviews by individual firm. Alternative approaches to disclosing results include:

- Disclosure of information by individual audit firm in CPAB's annual public inspections report such as the number of files reviewed and number of files with significant inspection findings and/or an explanation of the results of CPAB's review of the quality management systems of each individual firm. As an example, the Australian audit regulator provides information on inspection findings by firm in its [annual inspections report](#).
- Public disclosure of some or all of the individual firm private inspections reports including inspection themes and recommendations for improvement in audit quality. Examples of this practice internationally include reporting by regulators in [Australia](#), [United Kingdom](#) and [United States \(including reports on their inspection of Canadian audit firms that audit US issuers\)](#).
- Adoption of a voluntary program where any Participating Audit Firm can elect to publicly report on the results of their CPAB inspections, subject to appropriate safeguards to ensure consistency and accuracy of the information reported.

In evaluating alternatives, we are specifically interested in input on what type of information would be most useful to external stakeholders and how this information would be used. We also welcome input on whether these disclosures should be provided for all inspections of audit firms and/or whether there is merit to a phased approach beginning with disclosure of inspection results of firms where we inspect a larger number of audit files. This is particularly important in considering the reporting of inspection results of audit firms with smaller reporting issuer practices where the number of files reviewed by CPAB is smaller and deficiency rates in an individual year can be subject to significant fluctuation.

In considering the disclosure principles, each of these alternatives would provide increased public accountability to improve audit quality. The potential benefits of increased disclosures should be weighed against the risk of misinterpretation by those not familiar with the risk-based method used to select files for inspection. Public release of findings by firm would likely lead to an increase in CPAB's costs and resources and may reduce our timeliness in finalizing our findings and inspection reports. Publishing individual reports for each firm would be expected to have a greater impact on our cost and timeliness.

### **3. Disclosures related to CPAB's enforcement actions**

CPAB's Rules provide a framework of remediation and enforcement mechanisms to address audit quality deficiencies.

If a firm engages in conduct which violates professional standards that may impact audit quality CPAB has the authority to impose enforcement actions: Requirement, Restriction and Sanction. These enforcement actions include but are not limited to restrictions on a firm's auditing practice, termination of audit engagements, mandatory additional professional education and public censure.

CPAB often begins with imposing a Requirement for the first instance of an enforcement action but will initially impose or escalate its enforcement to a Restriction or Sanction when the performance of the audit firm and severity of the deficiency warrants. Requirements are typically focused on CPAB mandating the firm to take an action to make changes to its audit practice to improve audit quality.

Restrictions characteristically involve CPAB limiting the audit firm's practice in some way such as a prohibition from accepting new reporting issuer audits. With the imposition of a Sanction, CPAB may severely limit the audit firm's practice and obligate the firm to notify the audit committees of its reporting issuer clients.

CPAB has discretion to publicly disclose enforcement actions imposed on a firm. CPAB considers the seriousness of the breach of professional standards and the risk of harm to the investing public when making this determination. To date CPAB has not publicly disclosed any enforcement actions. In considering our responsibilities for public accountability we intend to exercise this discretion and disclose more information when enforcement actions are imposed on a firm with a focus on the most significant breaches of professional standards.

As we move towards increasing disclosure of enforcement actions, we are seeking input on the nature and breadth of such disclosure, how this information could impact the investing public and any unintended consequences.

In considering our disclosure principles, enhanced disclosure of enforcement actions increases public accountability contributing to our public interest mandate. Enhanced disclosure has the potential to increase the frequency of firm requests for review of findings or actions imposed which could significantly delay the finalization of enforcement actions and increase CPAB's costs.

### **We value your input**

CPAB encourages all stakeholders to provide feedback on this important topic. In summary, specific areas where we'd appreciate your input include:

1. Disclosure principles
  - a. Your comments on our proposed disclosure principles including any other principles we should consider.
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?
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?
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?
5. Any other comments about potential unintended consequences or other costs from changes to CPAB's disclosures.
6. Other areas where CPAB should consider changes to our disclosures.

We request your response no later than September 30, 2021. Earlier responses would be appreciated. In addition, we have developed a short survey which allows for an alternative approach of sharing views and perspectives. This survey can be found at [www.cpab-ccrc.ca/disclosures](http://www.cpab-ccrc.ca/disclosures).

Responses should be sent by e-mail to [consultation@cpab-ccrc.ca](mailto:consultation@cpab-ccrc.ca). Comments will be publicly available on CPAB's website ([www.cpab-ccrc.ca](http://www.cpab-ccrc.ca)) unless respondents specifically request otherwise.

Following completion of this consultation CPAB will review the feedback received and consider next steps, if any. Depending on the nature of any proposed changes, we may consult further with individual respondents or conduct an additional public consultation prior to finalization of any proposed changes.

If regulatory change is warranted including changes to our Rules or legislation, additional consultation and approvals may be necessary that vary by province (for example, review and/or approval by CPAB's Council of Governors, provincial securities or other regulators and provincial governments). Any proposed changes will be outlined in a feedback statement that will link to the feedback received and consider the cost and benefit of any changes.

Please send any questions related to this consultation to:

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