Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

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CPAB Audit Quality Insights Report
2026 INTERIM INSPECTIONS RESULTS

The Canadian Public Accountability Board (CPAB) contributes to public confidence in the integrity of financial reporting by overseeing audits of Canadian reporting issuers performed by CPAB registered accounting firms. This interim report, which is intended for audit firms, audit committees and the general public, highlights CPAB's initial observations regarding audit quality assessments of engagement files and the firms' systems of quality management from the 2026 regulatory assessment work as of September 30, 2026. The full results for all firms inspected in 2026 will be included in our annual report in March 2027. Firm-specific results will also be published in 2027.

This report also provides forward-looking observations on audit implications from the current economic and geopolitical environment and artificial intelligence applications in the auditing sector, as well as insights on CPAB public disclosures. Overall considerations for audit committees are included as year-end audit preparations begin. CPAB welcomes the opportunity to discuss this report with audit committees and other capital market participants.



How CPAB chooses files and audit areas to review

CPAB's risk-based methodology for choosing audit files for inspection (and the specific focus areas for those files) is targeted towards higher-risk audit areas of more complex reporting issuers or areas where the audit firm may have less expertise. It is not designed to select a representative sample of a firm's audit work. Our inspections do not look at every aspect of every file, therefore, the absence of significant findings in our review of a particular audit file does not mean that all aspects of the audit were fully compliant with professional standards, nor should it mean that any significant findings identified would be the only findings had CPAB reviewed every aspect of the file. Results should not be extrapolated across a firm's entire audit portfolio but instead viewed as an indication of how firms address their most challenging audit situations.

Audit quality assessments

As of September 30, 2026, CPAB has completed 66 of the 70 files planned for inspection across Canada's four largest audit firms and identified significant inspection findings[1] in four of those files. This compares to 10 files with significant inspection findings across 62 inspections in 2025. The interim results for 2026 indicate a meaningful improvement at the four largest firms. Among other factors, the reduction in significant inspection findings compared with 2025 suggests that actions taken by the firms to strengthen audit quality are contributing to improved performance.

Observations from inspections

The observations highlighted in this report reflect matters identified through CPAB's 2026 inspections as of September 30, 2026. They include recurring inspection findings, matters observed across multiple inspections, and emerging issues where the nature of the issue, potential impact on audit quality, or relevance to current audit risks warrants broader attention. These observations are intended to support audit committees, firms, and other stakeholders in understanding areas where audit execution, risk assessments, professional skepticism, or the sufficiency of audit evidence may require continued focus.

The observations highlighted in this report relate to:

- Accounting estimates in an environment of heightened uncertainty.
- Understanding information systems and highly automated processes.
- Perpetual inventory systems and cycle counts.
- Rebutting the presumed risk of fraud in revenue recognition.
- Key audit matters and transparency in auditor reporting.

In addition to the above, CPAB also highlights some good practices observed that support audit quality.

[1] A significant inspection finding is defined as a deficiency in the application of auditing or other relevant professional standards, as defined in Section 300 of CPAB's Rules, 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. CPAB requires firms to carry out additional audit procedures to determine the need, if any, to restate the financial statements due to material error, or to substantiate that the firm obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.

Accounting estimates in an environment of heightened uncertainty

Accounting estimates continue to be one of the most significant areas of judgment in financial reporting and auditing. In many industries, it has become harder for management to measure certain financial estimates precisely because the assumptions behind them are less certain than before. As a result, auditors need to carefully assess management's assumptions and obtain evidence that is responsive to the level of uncertainty involved.

In March 2026, CPAB published an update to its 2021 auditing estimates publication, *Strengthening Audit Quality: Auditing Accounting Estimates*, to provide additional examples of how firms have applied the requirements of Canadian Auditing Standards (CAS) 540, *Auditing Accounting Estimates*. CPAB also responded to the International Auditing and Assurance Standards Board (IAASB), post-implementation review, based on inspection findings and stakeholder outreach. The revised standard was designed to strengthen auditors' focus on estimation uncertainty, management bias, and the scalability of audit procedures. While the enhanced requirements have improved the framework for auditing accounting estimates, our inspections continue to identify challenges in the consistent application of those requirements, particularly for more complex estimates.

Inspection findings commonly arise where auditors:

- Place significant reliance on management forecasts without obtaining sufficient corroborative evidence to support key assumptions. Specifically, auditors should obtain more persuasive audit evidence when management forecasts growth rates that have historically not been achieved.
- Rely on historical experience despite changes in economic, industry, or market conditions such as the increased uncertainty resulting from geopolitical risk.
- Do not adequately challenge optimistic assumptions or expected future improvements.
- Do not appropriately consider contradictory evidence.
- Identify concerns relating to management's assumptions, methodologies, models, or data, but do not appropriately evaluate whether those matters represent individual or aggregated control deficiencies relevant to the estimate.

Auditors need to identify and communicate deficiencies in significant estimates because they may indicate weaknesses that could affect future reporting periods.

Even where current-year headroom prevents a material misstatement, unresolved weaknesses in the estimation process or audit response can become more consequential as conditions deteriorate. Clear communication enables management and those charged with governance to take timely corrective action before those weaknesses result in a material error or undermine the reliability of future estimates.

Understanding information systems and highly automated processes

CPAB identified findings in audits of entities that process large volumes of transactions through highly automated systems. In these environments, significant financial statement balances, including revenue, are often generated through multiple interconnected systems and applications with limited manual involvement.

As organizations increasingly rely on automated processes, auditors need a sufficient understanding of how information flows through those systems and how key financial information is generated. Without that

understanding, there is a risk that errors in system-generated information, automated processing, or data transfers between systems may not be identified and could affect large numbers of transactions.

Inspection findings included instances where auditors:

- Did not obtain a sufficient understanding of the systems and applications relevant to financial reporting, including third-party systems and service providers.
- Did not adequately evaluate the completeness and accuracy of information transferred between systems.
- Relied on system-generated information without sufficiently assessing its reliability.
- Did not test internal controls despite significant reliance on automated processing of large volumes of data.
- Relied on external or system-generated information to support revenue recognition without adequately evaluating whether the information was sufficiently precise, complete, and reliable for the audit purpose.

In March 2024, CPAB published *Strengthening Audit Quality: Identifying and Assessing the Risks of Material Misstatement*, which highlighted the importance of understanding information systems and data flows when performing the risk assessment. As business models and technology environments continue to evolve, auditors should ensure their risk assessment and audit approach appropriately address the growing reliance on automated systems and system-generated information.

As more audit evidence exists only in electronic form, auditors need to understand the systems and data flows that generate financial reporting information.

Timely involvement of information technology (IT) specialists can help identify relevant IT risks and deficiencies, including when substantive procedures alone may not provide sufficient appropriate audit evidence.

Perpetual inventory systems and cycle counts

CPAB identified findings in audits of entities that use perpetual inventory systems and management cycle count programs to support inventory quantities throughout the year. Where inventory is counted at dates other than year-end, including through multiple cycle counts, the auditor needs evidence that management's process and related perpetual inventory records are reliable. This includes evaluating the design, implementation and operating effectiveness of controls over the selection, counting, investigation, adjustment, and monitoring of inventory counts.

Inspection findings included instances where auditors did not sufficiently evaluate whether:

- Management's cycle count program covered the complete inventory population and was performed with sufficient frequency and precision.
- Controls over the design, implementation and operation of the program were effective throughout the period.
- Count variances were appropriately investigated, approved, recorded, and monitored on a timely basis.
- Relevant system controls, interfaces, and automated reports supporting the cycle count process were reliable.

Auditors should evaluate whether management's cycle count program is designed with sufficient precision to support financial reporting, not just operational inventory management.

When cycle counts are used to support perpetual inventory records, auditors need evidence that the program and related controls operate effectively throughout the period, including how items are selected, count differences are investigated and inventory records are adjusted.

Rebutting the presumed risk of fraud in revenue recognition

Revenue recognition requires particular attention when assessing fraud risk because revenue is often an important measure of an entity's performance and may be susceptible to manipulation. Auditing standards therefore require auditors to presume that there are risks of fraud in revenue recognition and to determine which types of revenue, revenue transactions or assertions give rise to those risks. Where an auditor concludes that the presumption is not applicable in the circumstances of the engagement, that conclusion needs to be supported by the entity-specific facts and circumstances.

CPAB has started to observe an increase in audits where auditors rebutted the presumed risk of fraud in revenue recognition.

Inspection findings included instances where auditors did not obtain sufficient appropriate audit evidence to support the rebuttal, including:

- Insufficient evaluation of the nature of revenue streams, revenue transactions, and relevant assertions.
- Incomplete consideration of incentives, pressures, and opportunities that could give rise to fraudulent financial reporting.
- Insufficient evaluation of how and where fraud could occur within the entity's revenue processes.
- Inappropriate reliance on management's perceived integrity or prior experience with management when assessing fraud risk.

CPAB also observed instances where auditors did not appropriately distinguish between inherent risk and control risk. The existence of effective controls, management review activities, or highly automated processes may affect the assessment of control risk, but does not, on its own, change the inherent susceptibility of an assertion to misstatement due to fraud. Accordingly, controls should not, on their own, provide a basis for rebutting the presumed risk of fraud in revenue recognition.

In several engagements where the presumption was rebutted, auditors performed procedures broadly consistent with those that might be expected in response to a fraud risk in revenue recognition. This disconnect between the auditor's fraud risk assessment and the audit response raises questions about whether the basis for rebutting the presumption was supported by the entity's specific facts and circumstances.

This observation is particularly relevant given the upcoming implementation of CAS 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, effective for audits of financial statements for periods beginning on or after December 15, 2026. The revised standard strengthens and clarifies the auditor's responsibilities related to fraud, including the identification and assessment of fraud risks and the auditor's responses to those risks, and enhances fraud-related transparency for listed entities.

Rebutting the presumed fraud risk in revenue recognition is subject to a high evidentiary bar and should be the exception, not the rule.

Where a rebuttal is made, it should be well-supported, tied to entity-specific evidence, and consistent with the nature and extent of the audit procedures performed.

Key audit matters and transparency in auditor reporting

Key audit matters (KAMs) are intended to enhance the communicative value of the auditor's report by providing transparency into those matters that, in the auditor's professional judgment, were of most significance in the audit. The usefulness of KAM reporting depends on whether users are provided with a balanced and accurate description of both the matter and the auditor's response.

Inspection findings included instances where:

- KAM disclosures described audit procedures, or scope of work, that was not supported by the audit documentation.
- Important limitations or considerations relevant to the audit response were not reflected in the KAM disclosure.

Key audit matters should provide meaningful transparency into the matters of most significance in the audit and how the auditor responded.

Because KAM reporting has now been in place for several years, there is an increased risk that descriptions become templated; senior engagement team members should continue to give this area appropriate attention to ensure KAMs remain engagement-specific, accurate and aligned with the audit work performed.



Good practices observed

While this report highlights areas where deficiencies were identified, CPAB also observed practices that supported the effective and consistent application of auditing standards. These practices were often embedded within the firm's system of quality management, reinforced through monitoring and remediation activities, and applied consistently throughout the audit process.

Examples of practices observed include:

Experienced engagement team members were actively involved early in the audit.	Engagement partners and senior team members participated in risk assessment, planning activities, and key audit decisions at early stages of the engagement.
Audit teams established realistic timelines and clear milestones.	Effective engagement scheduling provided sufficient time for management to prepare information, enabled timely auditor challenge and review, and supported the resolution of significant matters before reporting deadlines.
Complex or significant matters were escalated and addressed on a timely basis.	Engagement teams involved appropriate specialists, subject matter experts, and consultation resources early enough to support effective challenge and resolution.
Coaching, supervision, and review were integrated throughout the audit.	Ongoing guidance and challenge by experienced team members supported the development of professional judgment and professional skepticism and promoted consistent audit execution across team members.
Audit documentation clearly demonstrated how conclusions were reached.	Documentation provided a contemporaneous record of procedures performed, evidence obtained, significant matters considered, professional judgments made, and conclusions reached, enabling an experienced auditor to understand the work performed.
Supervision and review focused on whether audit evidence appropriately addressed identified risks.	Reviewers challenged the nature, timing, and extent of procedures performed and assessed whether conclusions were supported by sufficient appropriate audit evidence.
Management and those charged with governance supported an effective audit environment.	Strong financial reporting processes, reliable information systems, effective internal controls, and timely preparation of audit evidence contributed to efficient and effective audit execution.

When applied consistently, these practices help engagement teams execute audits effectively and obtain sufficient appropriate audit evidence to support their conclusions. Further examples how firm-level controls provide the foundation for these outcomes are included in CPAB's March 2026 publication, *Strengthening Audit Quality: Auditing Accounting Estimates*.

Firm system of quality management evaluations

The Canadian Standard on Quality Management (CSQM 1) requires all firms to annually evaluate their system of quality management and conclude whether it provides the firm with reasonable assurance that the objectives of the system are being achieved. CPAB's 2026 evaluations are focused on firms' self-assessments including the information considered, judgments made, and conclusions reached. CPAB will publish observations arising from our system of quality management evaluations in its annual report in March 2027.

How firms are required to respond to CPAB findings

Most significant findings require the firm to carry out additional audit procedures to determine the need, if any, to restate the financial statements due to material error. The remaining findings require firms to add evidence to the audit file to show they had obtained sufficient and appropriate audit evidence with respect to a major balance sheet item or transaction stream. CPAB expects firms to remediate file deficiencies before the reporting issuer's next quarterly report. Where a restatement is required, the firm is expected to work with the reporting issuer to complete the restatement as soon as possible in order to provide updated information to investors. Under CPAB's mandatory Protocol, audit firms are required to share CPAB's annual reports, as well as CPAB inspection reports, which outline any specific findings and remedial action taken, with the relevant reporting issuer's audit committee. CPAB encourages audit committees to discuss this report and specific findings, if applicable, with their auditor.





CPAB Vision

CPAB is a leading audit regulator that reinforces public confidence in Canada's capital markets.



CPAB Mission

CPAB promotes audit quality through proactive regulatory oversight, facilitating dialogue with domestic and international stakeholders, and publishing practicable insights to inform capital market participants.

Other current topics

Artificial intelligence in audits

The use of artificial intelligence (AI), including emerging AI-agent capabilities, continues to expand across the audit profession. As technology becomes more integrated into the audit process, maintaining appropriate human oversight, professional judgment, and accountability for audit conclusions remain critical.

CPAB remains focused on considering how firms' systems of quality management support the adoption and use of technology, including processes for evaluating and testing new tools, establishing appropriate governance and safeguards, and ensuring personnel have the necessary training, competence, and support to use technology effectively.

CPAB's ongoing oversight activities will continue to inform our understanding of emerging practices and their implications for audit quality. As the adoption of AI within financial reporting and operational processes by reporting issuers increases, auditors will also need to address the related risks, controls, and auditability of AI-generated information. This may require auditors to adapt their procedures to respond to these emerging risks.

Additional observations on this topic are available in CPAB's publication *The Use of Artificial Intelligence in the Audit — Balancing Innovation and Risk* and the publication *The Evolving Use of Technology in the Audit*.

CPAB public disclosures

In March 2026, CPAB reached an important milestone by beginning the publication of individual firm public inspection reports. This initiative represents a significant enhancement to CPAB's regulatory reporting and builds on a series of disclosure improvements introduced over the past three years to strengthen transparency and foster dialogue on audit quality among audit committees, audit firms, investors, and other stakeholders.

Each report follows a consistent format and provides comparable, factual information about the results of CPAB's inspections of an individual audit firm without identifying any specific reporting issuer information. By September 30, 2026, CPAB had published 24 individual firm reports from its 2025 inspections as well as one report from its 2026 inspections.

Initial stakeholder feedback has been encouraging. Audit committee members have expressed appreciation for the increased transparency, indicating the reports serve as a valuable input when evaluating auditors, and they have enhanced discussions about audit quality with their auditors. Stakeholders have also expressed interest in future comparative information that would support an understanding of trends over time.

To support stakeholders in navigating the expanded public disclosures, CPAB launched a dedicated webpage on regulatory reporting that explains the purpose of the reports and addresses common questions.

Ethical conduct and firm culture

Ethics, culture, and firm governance are fundamental drivers of audit quality. A firm's culture influences how decisions are made, how professional judgement and skepticism are exercised, and whether individuals feel empowered to raise concerns and challenge issues that could affect audit quality. CSQM 1 requires firms to demonstrate a commitment to quality through governance, leadership, and a culture that recognizes the importance of ethical behaviour, professional responsibilities, and audit quality.

Recent enforcement matters, increased attention from regulators and standard setters, and evolving risks associated with technology and changing business models, have all heightened focus on the role ethics, culture and governance play in supporting audit quality. As part of its strategic objective to raise the bar for ethics,

culture, and governance, CPAB has launched a multi-year initiative drawing on inspection insights, enforcement observations, stakeholder engagement activities, and international insights. The initiative reflects CPAB's view that strong ethics, culture, and governance are foundational to sustainable audit quality.

Looking ahead, CPAB will share observations and insights through publications, stakeholder outreach, and other thought leadership activities. Planned initiatives include publications on whistleblowing, culture measurement, an ethical dilemmas series, and broader stakeholder engagement activities.

Smaller firm strategy

CPAB has announced changes to its inspection approach as part of its commitment to supporting audit quality at smaller audit firms. Beginning with the 2027 inspection cycle, CPAB's oversight approach for smaller audit firms will streamline inspection activities to allow CPAB to focus its regulatory activities where they can have the greatest impact. In addition to changes to its oversight activities, CPAB will also create additional opportunities for stakeholder engagement. Key takeaways from CPAB's Smaller Firms Summits have been published on CPAB's website.

Revised auditing standards

In August 2026, the IAASB published proposed revisions to ISA 330, *The Auditor's Responses to Assessed Risks*, ISA 500, *Audit Evidence*, and ISA 520, *Analytical Procedures*. These revisions are intended to modernize the audit evidence and risk response standards, strengthen the risk-based audit framework, and address the increasingly complex and technology-enabled environments in which audits are performed. Throughout the year, CPAB engaged in discussions on the proposals and their implications for audit quality, including through collaboration with other IFIAR members. CPAB is also developing feedback on the exposure draft as part of its ongoing standard-setting activities.



Considerations for audit committees

CPAB welcomes the opportunity to discuss this report with audit committees. Below are some areas for audit committee consideration.

Topic	What to ask the auditor
Accounting estimates in an environment of heightened uncertainty	• What were the areas involving the greatest management judgment and estimation uncertainty, and how did you satisfy yourself that the assumptions, methodologies, controls, and audit evidence supporting those estimates were appropriate? • Were there any issues or deficiencies that were not communicated and how were those evaluated?
Understanding information systems and highly automated revenue processes	• Have you identified any deficiencies in our internal controls that have not previously been discussed with the audit committee? • How did you and management determine that information generated by the entity's systems and used in the financial reporting process was complete, accurate, and reliable? • What procedures were performed to address the risk that systematic processing errors could affect entire populations of transactions?
Perpetual inventory systems and cycle counts	• What procedures were performed to evaluate the effectiveness of controls supporting a cycle count program and related perpetual inventory records?
Rebutting the presumed risk of fraud in revenue recognition	• Were there any presumed or significant fraud risks that required particular judgment in the risk assessment process, and how did you determine that the planned audit response was appropriate?
Audit team expertise and professional judgement	• What complex or significant matters were escalated throughout the audit, and when were specialists or subject matter experts needed to support effective challenge and resolution? • How have audit personnel been trained on the use of new technology integrated into the audit process? Which elements of the audit, if any, were planned or completed by using AI tools?
Ethical conduct and firm culture	• What methods does the firm use to assess culture? Examples may include culture surveys, whistleblower reporting, and root cause analysis. • What were the most significant findings from the firm's recent culture assessments, and what actions have been taken in response to those findings?

Additional CPAB resources

Additional resources related to CPAB's regulatory oversight activities are available at www.cpab-ccrc.ca/insights.

About this report

This report provides insights from CPAB's interim audit quality assessments for 2026, related for the most part to the country's four largest audit firms. We will publish our annual audit quality insights report in March 2027.

About CPAB

The Canadian Public Accountability Board (CPAB) is Canada's independent, public company audit firm regulator. Charged with overseeing audits performed by registered public accounting firms, CPAB contributes to public confidence in the integrity of financial reporting and is committed to protecting Canada's investing public. CPAB promotes audit quality through proactive regulation, dialogue with domestic and international stakeholders, and practicable insights to inform capital market participants. CPAB has offices in Montreal, Toronto and Vancouver.

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