

The objective of this document is to outline the Canadian Public Accountability Board's (CPAB) expectations for the **Engagement Findings Report (EFR) Panel Submission** (Submission). This is a required document when the CPAB inspection team is proposing a significant inspection finding¹ (also referred to as an EFR 1) related to the inspection of a reporting issuer audit engagement file and is used by CPAB in the determination of whether a finding constitutes an EFR 1.

SIGNIFICANT INSPECTION FINDINGS

During a file inspection, should a deficiency be identified by the inspection team that is believed to constitute a significant inspection finding, this is first communicated verbally to the firm to give them the opportunity to provide their position regarding any additional facts or circumstances that CPAB should consider in its assessment of the deficiency.

Once consideration is given to the firm's position, if the inspection team's conclusion with respect to the significance of the deficiency is unchanged by the additional information, the matter is referred to an EFR panel for a decision. All members of the EFR panel have a Chartered Professional Accountant designation and include members of CPAB's leadership team and senior inspection leaders. The EFR panel serves as another level of oversight over the decision-making process and is intended to ensure consistent treatment of similar findings across all of CPAB's inspections.

EFR PANEL SUBMISSION

The Submission is a document that includes details about the reporting issuer, the testing performed by the engagement team and a description of CPAB's findings. The Submission is drafted using the standardized template attached in Appendix A. A separate Submission is prepared for each significant finding being proposed by the inspection team based on its inspection of the audit file.

The inspection team is responsible for completing the sections for the audit engagement profile, proposed EFR 1 finding, facts that are relevant to the findings and a description of CPAB's findings. The firm is responsible for completing the sections pertaining to the firm response to facts and firm response to CPAB's findings, as well as indicating who at the firm approved the Submission. This process gives the firm an additional opportunity to provide its position, that will be provided to the EFR panel to consider in its deliberations. It also ensures that the facts are appropriately outlined and that CPAB's concerns are clearly expressed to the firm.

The entire Submission is then submitted to the EFR panel and is the basis upon which the EFR panel will make its determination.

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.

(i) Facts section

This section includes an overview of the Reporting Issuer (RI) and the nature of its operations (typically derived from the nature of operations note in the financial statements), a brief overview of the subject matter (e.g. if the proposed significant finding relates to revenue, a brief overview of the nature of the revenue) and a high-level overview of the audit approach. The objective of the facts section is to briefly describe the audit procedures performed by the engagement team, including the identification and assessment of the risk of material misstatement, evaluation of internal controls and substantive procedures, with key working paper references. It is not meant to outline all procedures performed in the audit file pertaining to the financial statement item or risk area but instead focuses on the work that is relevant to the finding (e.g. if the proposed finding relates to the valuation of an investment, the facts will not include procedures performed to address other relevant assertions such as existence).

(ii) Firm Response to Facts section

The firm has the option to agree or disagree with the facts presented. If the firm disagrees with the facts, they can provide reasons for the disagreement in the comments section which must be supported with references to additional audit evidence in the working papers within the audit file that they believe are relevant to the finding.

(iii) Description of CPAB's Findings section

The purpose of the description of CPAB's findings section is to outline the auditing standards that the firm did not comply with and provide further detail on why the audit procedures performed and evidence obtained, as outlined in the facts section, were not sufficient and/or appropriate to support the engagement team's conclusion that the related financial statement item/area is not materially misstated.

(iv) Firm Response to CPAB's Findings section

The firm has the option to agree or disagree with CPAB's findings. If the firm disagrees with the finding, i.e. the firm believes that sufficient audit work has been performed to support the audit opinion, the firm can explain in the comments section other factors that the firm believes are relevant for the EFR panel to consider in deliberating on the matter.

(v) Firm Approval section

This section must be approved by an individual who has the authority to represent the firm position such as a member of the firm's Professional Practice or Audit Quality department, the Audit Leader or Managing Partner.

ENGAGEMENT FINDINGS REPORT AND MANDATORY REPORTING TO AUDIT COMMITTEES

If the EFR panel ultimately concludes that the proposed finding constitutes a significant inspection finding, the inspection finding(s) are communicated to the firm in writing as part of an EFR. It is important to note that the target audience for the EFR is the audit committee, whereas for the Submission, the target audience is the firm and the EFR panel. As such, a significant finding (categorized as an EFR 1) is a summarized version of the finding

included in the Submission and is intended to be written in language that is clear to audit committee members that may not be familiar with auditing standards.

In accordance with CPAB Rule 413 and the Protocol for audit firm communication of CPAB inspection findings with audit committees, the firm is required to provide that reporting issuer's audit committee with significant findings, if any, specific to a reporting issuer's audit file inspection. The significant inspection findings are written by CPAB and include the audit firm's response to ensure a fair and balanced communication to the audit committee. The firm is required to confirm to CPAB that the specific inspection findings have been communicated to the audit committee.

CPAB will prepare two versions of the EFR. One version which includes significant findings only (if there are no significant findings, this will be indicated as such), to be distributed to the audit committee under the above-mentioned Protocol. A second version which includes significant and other findings² (categorized as EFR 2s) is a private and confidential communication to the firm.

REQUESTS FOR RECONSIDERATION OF EFR PANEL DECISIONS

The EFR Submission process is designed to ensure firms have the opportunity to provide fulsome written submissions and supporting evidence to the panel in the first instance. As a result, the reconsideration process is reserved for limited circumstances which include where:

1. The firm has obtained relevant evidence from the archived audit file that was not provided at the time of the original EFR Panel submission³ and that could reasonably be expected to affect the outcome of the decision.
2. The firm has identified a relevant argument that could not have been reasonably anticipated or made prior to the panel's decision, and that is directly triggered by the reasoning or outcome of the panel's decision.

Upon receipt of the draft version of the EFR, the firm may submit a request for reconsideration within ten (10) business days. The request must clearly articulate both: (1) the specific reasons why CPAB should grant the request for reconsideration, and (2) all new evidence or arguments that the firm wishes the panel to review. The submission should be comprehensive and include all pertinent information.

PETITION FOR REVIEW

CPAB's rules also provide firms with the opportunity to petition to an independent panel of hearing officers for a review proceeding where a CPAB inspection results in a proposal for the imposition of enforcement actions under Rule 601. In this context the firm can challenge CPAB's enforcement actions on the basis that it disagrees

² Other findings are a noted deficiency in the application of generally accepted auditing standards related to a material balance sheet item or transaction stream where CPAB is able to conclude, without the engagement team performing additional procedures to support the audit opinion, that the deficiency is unlikely to result in a material misstatement. These findings, while not significant, indicate areas for improvement.

³ This may include evidence that is included in the archived audit file that was not reviewed by CPAB as part of the inspection because it resides in another section of the file that was not within CPAB's scope.

with the significant inspection finding by submitting a petition for a review proceeding within 15 days of receiving notice of the proposed actions. More information about this process can be found on the review proceedings page on the CPAB website.

TIMELINES

It should be noted that prior to the firm receiving the Submission for review from CPAB, CPAB will have had extensive discussions with the firm to clarify the facts and findings so that by the time the firm receives the Submission for response, they are well positioned to provide their response. CPAB anticipates an approximate five-to-six-week timeline from when it is determined that the potential significant finding will be discussed at the EFR Panel, to when the draft EFR is provided to the firm for their review. This timeline includes discussions with the firm, preparation of the Submission, firm review of the Submission, the EFR Panel meeting and drafting of the EFR by CPAB.

The firm is required to provide their responses in accordance with the deadlines specified below. If the firm is unable to adhere to the timeline, they must notify the inspection leader in writing before the deadline outlining the reasons. If the firm does not adhere to these timelines, CPAB reserves the right to provide the Submission to the EFR panel and/or issue the final EFR without commentary by the firm.

Description	Deadlines <i>(unless specified otherwise in writing by CPAB)</i>
Firm response to the EFR Panel Submission	Within 10 business days of issuance by CPAB.
Firm response to the Draft EFR	Within five business days of issuance by CPAB.
Communication of Final EFR to the audit committee	As soon as practicable, but no later than the next scheduled audit committee meeting after the issuance of the final EFR to the firm. If a potential material error is identified, the audit firm will advise the RI, including its audit committee, on a priority basis. The audit committee and the auditor should agree on the timing of when significant inspection findings should be communicated to the audit committee as some may prefer earlier notification of the findings.
Remediation of significant findings	At the earlier of 90 days following the issuance of the final EFR or the next filing of the quarterly financial statements on SEDAR.

Appendix A – EFR Panel Submission template

The following is a sample outline of the EFR Panel Submission.



EFR Panel Submission

AUDIT ENGAGEMENT PROFILE			
Reporting Issuer:			
Firm Name:		Office Location:	
Engagement Leader:		Year-End:	
Industry:		Stock Exchange:	
Materiality:		Market Capitalization (YE):	

CONFIDENTIALITY DISCLAIMER: This document is intended as a private communication from the Canadian Public Accountability Board (CPAB) to the audit firm. Accordingly, the firm may not provide a copy of this document or any portion thereof to any third party.

PROPOSED EFR 1 FINDING		
Finding:		
FACTS:		
FIRM RESPONSE TO FACTS:		
Firm response to facts:	Agree <input type="checkbox"/>	Disagree <input type="checkbox"/>
Comments if disagree:		
DESCRIPTION OF CPAB'S FINDINGS:		
FIRM RESPONSE TO CPAB'S FINDINGS:		
Firm response to CPAB's findings:	Agree <input type="checkbox"/>	Disagree <input type="checkbox"/>
Comments if disagree:		

FIRM APPROVAL:	
Firm representative name:	
Firm representative title:	
Date:	