



Canadian Public Accountability Board  
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## Request for comment on the Canadian Public Accountability Board's proposed rule changes

### We want to hear from you

The Canadian Public Accountability Board (CPAB) is Canada's independent audit regulator that oversees accounting firms that audit Canadian reporting issuers. CPAB promotes audit quality through proactive regulation, robust audit assessments, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting.

CPAB's governing document, the Canadian Securities Administrators' [National Instrument - 52-108 Auditor Oversight](#) requires auditors of reporting issuers to be registered with CPAB as CPAB participants, and requires Canadian reporting issuers to issue financial statements audited only by CPAB participating firms.

CPAB's audit quality assessment program is a two-pronged approach that includes file inspections and system of quality management assessments of firms that audit Canadian reporting issuers.

### Consultation process

In 2021 CPAB conducted a public consultation to gather stakeholder input and invite a dialogue to inform CPAB's evolution of its approach to disclosing the results of oversight of participating audit firms that audit Canadian reporting issues. Through our 2021 public disclosures consultation CPAB heard from over 100 stakeholders via our online survey, comment letters and one-on-one interviews. Feedback was shared by a wide range of stakeholders, including audit committee chairs and members, investors, audit firm partners and professionals, as well as regulators and public company management. The majority of stakeholders said CPAB should significantly increase or make targeted improvements to how we disclose our regulatory assessments. Specifically, audit committee members expressed that additional information on the results of CPAB's oversight would be beneficial in supporting their oversight of auditors. Investors and other commentators outlined that increased disclosures would increase public accountability and pressure on firms to improve audit quality.

A detailed summary of the feedback received from that consultation can be found [here](#).

CPAB is increasing the level of transparency in relation to the results of our regulatory assessments to:

- Improve audit quality by increasing the motivation for audit firms to address audit quality deficiencies in a timely manner to avoid the negative impact of public disclosure.
- Support stakeholders in our capital markets, including audit committees in their important role in auditor oversight and investors in making their investment decisions, by providing more information on the results of CPAB's oversight activities.
- Respond to increasing public expectations about access to information from regulators.
- Keep pace with other leading national audit regulators regarding information disclosed.



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In September 2022 CPAB published [disclosure recommendations](#) stemming from the 2021 consultation. CPAB outlined, for each recommendation, the anticipated impact on:

- Improvement in audit quality.
- Timeliness of CPAB reporting and remediation of audit deficiencies.
- Public accountability.
- Cost vs. benefit.

Disclosure changes will take place in two phases. We implemented the first phase of our recommendations in 2023. The second phase of our recommendations will be implemented following a public consultation process, which CPAB is now conducting, and after approval of changes to CPAB's Rules.

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 and/or by completing a short survey. Comments received in this consultation will be considered together with feedback received in the 2021 consultation.

This document provides background on the proposed rule changes and includes specific areas where we would like your input.

Comments are requested by **November 24, 2023**. Earlier responses are appreciated.

Written 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.

If respondents wish to provide their responses via the survey, they can do so [here](#).



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## Proposed rule changes

The purpose of the proposed rule changes is to facilitate the implementation of our planned [disclosure recommendations](#) and address targeted changes to CPAB's Rules to improve our effectiveness.

Below we have provided an overview of the different types of changes and why they are being proposed.

The proposed rule changes summary (see link provided in Appendix A) provides details on each of CPAB's existing rules that will be impacted by these changes, the reasons for the changes and how the changes compare to other regulators, including audit regulators. CPAB has also prepared an updated complete version of our Rules with tracking to illustrate the changes proposed in this consultation. A copy of this version can be found on CPAB's [website](#).

CPAB will continue to ensure adherence to applicable laws, including consideration of different legal requirements across Canada and in other jurisdictions, following these rule changes. As a result, CPAB may adapt our approach based on jurisdictional differences.

## Disclosure-related changes

The most significant change is the disclosure of individual firm inspection reports for every audit firm inspected by CPAB in a given year. In addition, we are requesting a rule change to make mandatory the voluntary CPAB Protocol for the disclosure of reporting issuer-specific significant inspection findings to the reporting issuer's audit committee. The voluntary Protocol has been in place since 2014<sup>1</sup>.

### *Individual public inspection reports*

CPAB's individual public inspection report will:

- Include an overview of CPAB's risk-based inspection approach and brief background on the participating audit firm's reporting issuer practice.
- Provide a high-level fact-based summary of the results of CPAB's inspection of the firm.
- Include a final response by the participating audit firm to the final disclosed inspection report, if provided by the firm.
- Not identify a reporting issuer.
- Adhere to applicable laws including consideration of different legal requirements across Canada and in other jurisdictions.

See Appendix B for a sample of an individual public inspection report.

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<sup>1</sup> Currently over 70% of Canadian Participating Audit Firms voluntarily participate in [Protocol for Audit Firm Communication of CPAB Inspection Findings](#). In 2022, 34 of the 44 files with significant findings were shared by the audit firm with the relevant audit committee under the Protocol (2021: 36 of 38).



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During our earlier consultation some stakeholders expressed concerns that the information disclosed in a condensed individual public inspection report could be used or referenced by participating audit firms or other stakeholders in a manner that would be misleading or inaccurate to the investing public. Our proposed rule change restricts participating audit firms from publishing or extracting portions of CPAB inspection reports without CPAB's consent. Prior to the commencement of publication of individual inspection reports, CPAB will provide guidance to firms seeking CPAB's consent to publish this information.

For additional information on these proposed rule changes see the links provided in Appendix A.

### **Changes to improve operational effectiveness and administrative practices**

These amendments allow CPAB to modernize our rules, bringing them in line with current practices and improve our operational effectiveness in targeted areas.

#### *Review hearing process changes*

Certain revisions to the CPAB review hearing process are recommended to address identified risks, simplify our review hearing process and align it with those commonly used by many other regulators, including audit regulators.

These changes include:

- Giving CPAB the ability to request a hearing officer / panel to impose enforcement actions on a firm on an interim basis (before the conclusion of a review proceeding) in cases where the facts support that the interim order is necessary to protect the investing public.
- Confirming CPAB's ability to publish review panel decisions.

#### *Participation and withdrawal changes*

Some changes to the registration process are recommended to improve our operational effectiveness. For example, one change would allow the termination of a participating audit firm for material non-compliance with, or misrepresentation during, the registration or participation process. Another example is allowing CPAB to maintain jurisdiction if a participating firm withdraws while CPAB is completing an enforcement action or investigatory process or if the conduct occurred while the firm was registered as a CPAB Participating Audit Firm.

#### *Housekeeping changes*

These changes are meant to improve language clarity, update nomenclature to align with current standards, including the new quality management auditing standard and remove references to outdated methods of communication.

For additional information on these rule changes see the link provided in Appendix A.



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## Additional information on CPAB's Engagement Findings Report

Some respondents to CPAB's consultation process indicated they would like more information on, and transparency in relation to, CPAB's Engagement Findings Report process. The Engagement Findings Report documents the details of significant inspection findings that have been identified through the course of an inspection.

This feedback relates to CPAB's recommendation to introduce mandatory disclosure of reporting issuer-specific significant inspection findings to the reporting issuer's audit committee and publishing individual firm public inspection reports. If the protocol is made mandatory, in the event that CPAB has inspected the audit file of a reporting issuer, the firm will be required to provide the audit committee with CPAB's Engagement Findings Report (EFR) which includes the following:

1. A description of the focus areas selected for inspection by CPAB.
2. An indication of whether there are any significant inspection findings.
3. Any significant inspection findings including a description of actions taken by the firm in response to the findings and CPAB's disposition.

In response to these comments CPAB has added further information on our current Engagement Findings Report process to our website, available [here](#). This includes information related to the composition of the Engagement Findings Report panel and the decision-making process.

## Cost vs. benefit of proposed amendments

When considering the anticipated impacts of the two phase two disclosure changes CPAB considered the potential economic impact of the recommendations on audit firms, Canadian capital markets and CPAB itself as follows:

Disclosure change	Potential costs
Mandatory reporting of reporting issuer specific findings to the audit committee.	CPAB does not expect these changes to increase costs to CPAB or firms. Under mandatory audit committee disclosure, firms will share information that is already available to most reporting issuer audit committees.
Publishing of individual firm inspection reports.	Public disclosure of firm-specific significant inspection findings will increase CPAB's costs. Additional resources will be required to prepare public inspection reports for each firm.  The introduction of individual firm inspection reports will also increase costs for audit firms to review and comment on the public version of the inspection reports.  CPAB does not believe these costs will be significant because audit firms currently review and provide comments on the private inspection reports that CPAB currently issues to each firm that is inspected.



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Certain stakeholders have indicated that public disclosure of inspection results may have an unintended consequence of reducing the choice of auditors that are willing to accept the risk of auditing more complex reporting issuers and/or reporting issuers operating in emerging industries. CPAB has considered this risk and notes that at present there are a very small number of Canadian reporting issuers that do not currently have an auditor (less than 10 reporting issuers that changed auditors in 2023 currently do not have an auditor). This risk will continue to be monitored and weighed against the public interest of increased disclosures that increase the accountability of audit firms to have consistent audit quality across their entire portfolio of reporting issuer audits.

We do note that many of the proposed disclosure changes have been in place in other countries including the United States, Australia and the United Kingdom for several years or since the inception of the regulator without any significant negative economic impacts.

We believe, on balance, that increased access to information, and the associated increase in accountability of firms, provides benefits outweighing the costs that are expected to be incurred by CPAB and the audit firms and the impact on Canada's capital markets.

### **Legislative change process**

The proposed rule changes cannot be implemented in Ontario without amendments to the CPAB Act. Whether such amendments are made is subject to the discretion of the Ontario legislature.

Legislative change activities are expected to take additional time to complete.

### **We value your input**

CPAB encourages all stakeholders to provide feedback on this important topic.

We would like to hear your views, including whether you are supportive of the proposed changes to CPAB's Rules as outlined in the proposed rule changes summary (see link provided in Appendix A).

Specifically, please share your comments on the proposed changes related to:

1. Disclosure-related changes.
2. Changes to improve operational effectiveness and administrative practices.
  - a. Review hearing process changes.
  - b. Participation and withdrawal changes.
  - c. Housekeeping changes.
3. Other comments you would like to provide.



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The public consultation process will close on **November 24, 2023**. Please provide your comments before end of day on November 24. Earlier responses are appreciated. Respondents can provide their views either by survey or e-mail.

Click [here](#) to respond via survey.

Written 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 unless respondents specifically request otherwise. Please send any questions related to this consultation to:

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### **Post- consultation activities**

Following this public consultation, CPAB will review and consider the feedback received and finalize the proposed rule changes. CPAB may seek clarification from stakeholders on feedback provided as needed.

The rule changes will then be approved by the CPAB board of directors and provided to CPAB's Council of Governors and CPAB will seek formal approval from the relevant parties, which are the Ontario Ministry of Finance, the *Autorité des marchés financiers*, and the Alberta Securities Commission.

CPAB intends to complete these activities in 2024.

The final implementation of the rule changes in Ontario will be dependent on amendments to the CPAB Act. Whether such amendments are made is subject to the discretion of the Ontario legislature. In addition, CPAB's publishing of information related to Quebec based CPA firms will need to be addressed on a case-by-case basis, with the *Ordre des comptables professionnels agréés du Québec* to ensure the disclosures are consistent with the applicable laws and regulations in Quebec.



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## **Appendix A – Rule change summary chart and blackline**

The proposed rule changes summary chart can be found [here](#).

A blackline of the rules reflecting these proposed changes can be found [here](#).

A blackline of the Participation Agreement reflecting these proposed changes can be found [here](#).





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## Appendix B – Sample individual firm inspection report

*The sample report below is provided to illustrate the information that could be included in a public individual firm inspection report.*

### Firm X – 2024 regulatory assessment

#### Overview

The Canadian Public Accountability Board (CPAB) is Canada’s independent audit regulator that oversees public accounting firms that audit Canadian reporting issuers. We promote audit quality through proactive regulation, robust audit assessments, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting.

CPAB’s audit quality assessment program is a two-pronged approach that includes file inspections and system of quality management assessments of firms that audit Canadian reporting issuers.

Members of CPAB’s staff conducted an inspection of X LLP in 2024 (Firm X), pursuant to Section 400 of the Rules of CPAB (the “Rules”), as authorized by the Canadian Public Accountability Board Act, R.S.O. 2006, C. C-33 (the “Act”). This inspection assessed the firm’s compliance with professional standards and involved a review of a limited sample of reporting issuer<sup>2</sup> audit files. For additional information on CPAB’s risk-based methodology for choosing files see the Appendix to this report.

Through an inspection, CPAB may identify significant findings which represent deficiencies in the application of generally accepted auditing standards. These findings are summarized below. Where a significant finding is identified the firm must perform additional audit work to support the audit opinion reached, and/or must make significant changes to its audit approach. It is important to note that when CPAB identifies an auditing deficiency, it does not mean that the reporting issuer’s financial statements are materially misstated.

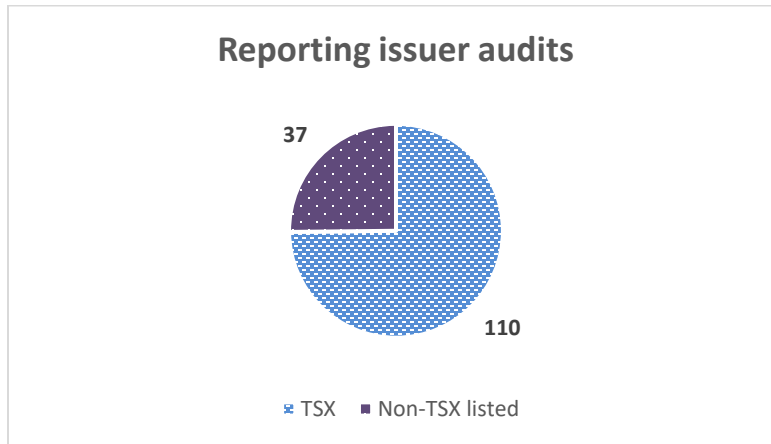
#### About firm X

Firm X audits 147 reporting issuers that fall within CPAB’s scope, including 110 entities listed on the Toronto Stock Exchange (TSX) and 37 other non-TSX<sup>3</sup> -listed entities. CPAB conducts an assessment of Firm X’s compliance with professional standards annually.

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<sup>2</sup> A reporting issuer is generally a public entity in Canada with ongoing compliance and disclosure obligations.

<sup>3</sup> Non-TSX listed entities includes reporting issuers listed on the TSX-V, CSE, NEX.



### Inspection findings: Firm X

	2024	2023
Files inspected	15	17
Files with significant findings <sup>4</sup>	1	3

### Focus areas

This table reflects the five audit areas we selected most frequently for review in each inspection year. These areas were selected because they are generally significant to the reporting issuer’s financial statement or included complex issues or judgement.

2024			2023		
Audit area	Number of audits inspected	Number of audits with significant findings	Audit area	Number of audits inspected	Number of audits with significant findings
Revenue and related accounts	12	0	Revenue and related accounts	13	1
Inventory	9	1	Business combination	10	1
Goodwill and intangible assets	7	0	Goodwill and intangible assets	7	0
Going concern	15	0	Inventory	12	1
Leases	8	0	Long-lived assets	8	0

<sup>4</sup> Significant findings — A significant 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 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 identify whether there are material errors that could require restatement of the reporting issuer’s financial statements, or to substantiate that the firm obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream.



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## **Appendix**

### **How CPAB chooses files to review**

CPAB's risk-based methodology for choosing files for inspection (and the specific areas of focus for those files) is not designed 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 firm may have less expertise, so there is a greater likelihood of encountering audit quality issues. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors meet or exceed standards. Results should not be extrapolated across a firm's entire audit business, but instead viewed as an indication of how firms address their most challenging situations.

### **How firms respond to CPAB findings**

The majority of CPAB's inspection findings require the firm to carry out additional audit procedures to identify whether there are material errors that could require restatement of the reporting issuer's financial statements. In a minority of cases, CPAB requires the firm to add considerable evidence to the audit file to show it obtained sufficient and appropriate audit evidence with respect to a major financial statement item.

### **Firm's system of quality management**

CPAB's inspection report does not provide a detailed assessment of the firm's system of quality management. If CPAB makes recommendations to a firm for improvement of its system of quality management, the firm is required to submit evidence or otherwise demonstrate to CPAB it has remedied weaknesses and deficiencies and implemented recommendations no later than 180 days after issuance of the final inspection report. If a firm does not address the weaknesses, deficiencies, or recommendations to the satisfaction of CPAB, or does not make a submission in accordance with CPAB Rule 414, CPAB may make public on its website the relevant portion or portions of the final inspection report that deal with the weaknesses, deficiencies or recommendations and the fact that they have not been addressed to CPAB's satisfaction.

### **About this report**

CPAB's inspection report summarizes CPAB findings on key matters relevant to audit quality at Firm X during 2024. CPAB does not accept any liability to any party for any loss, damage or costs however arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on, or otherwise using this document, or arising from any omission from it.



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### **Firm response**

Each individual firm inspection report will include a final response by the participating audit firm, if one is provided by the firm.