

September 29, 2021

Canadian Public Accountability Board (CPAB)  
Submitted via email to: [consultation@cpab-crc.ca](mailto:consultation@cpab-crc.ca)

## **Re: CPAB Consultation on Regulatory Disclosures**

FAIR Canada is pleased to provide comments in response to the above-referenced consultation.

FAIR Canada is a national, independent charitable organization dedicated to being a catalyst for advancing investor rights in Canada. As a voice of the Canadian investor and financial consumer, FAIR Canada promotes its mission through outreach and education on public policy issues, policy submissions to governments and regulators, and proactive identification of emerging issues.<sup>1</sup>

Access to reliable financial reporting is critical for investors in making informed decisions. This assumes that auditors, who play a crucial gatekeeper role, are competent and meeting their professional standards. When auditors fail to meet these standards, it can call into question the reliability of financial statements prepared by reporting issuers and may erode confidence in our capital markets.

The continued high rates of significant inspection findings by CPAB indicates a need to do more to protect investors and strengthen public confidence. We are therefore generally supportive of CPAB's initiative to enhance disclosure of its inspection findings. If properly tailored, the additional disclosure contemplated in the consultation should promote audit quality and support better investor outcomes.

Our comments on the specific consultation topics are set out below.

### **1. Disclosure principles.**

- a) Provide your comments on our proposed disclosure principles, including any other principles we should consider.**

---

<sup>1</sup> Visit [www.faircanada.ca](http://www.faircanada.ca) for more information.

***Protecting the investing public should be a standalone principle***

We believe that protecting the investing public is a critical disclosure principle when evaluating potential changes.

Currently, it is subsumed under the principles of “timeliness” and “public accountability.” Given its importance, and CPAB’s mandate to protect the investing public’s interest, it should be a standalone disclosure principle.

***Timeliness of Reporting and Remediation***

We agree that timely reporting and remediation of audit deficiencies are critical.

From an investor’s perspective, it is important that any audit deficiency that may raise questions about the reliability of an issuer’s financial reporting be flagged as soon as possible to avoid ongoing harm. This would be facilitated by making it mandatory to disclose an individual audit file inspection to the reporting issuer’s audit committee. This would enable the audit committee and/or issuer to assess whether they are meeting their disclosure obligations under securities laws.

Ensuring that individual audit firm inspection reports are published in a timely way is also a critical consideration when evaluating potential changes. In our view, a firm should not be able to endlessly negotiate the findings or wording of CPAB’s report - the report should be published as soon as possible after the inspection is carried out.

We understand that in jurisdictions that publish individual audit firm inspection reports, negotiation over the findings/wording of reports often leads to lengthy delays in publication, sometimes as long as two years. Such delays significantly undermine the value and utility of publishing these reports.

***Ensuring investors are clear on what the disclosure means***

We recognize that with any proposed additional disclosure, there is a risk that investors and markets may misunderstand its implications or draw inappropriate conclusions from the reporting. For example, whether financial statements audited by a firm inspected by CPAB can still be relied on when CPAB flags concerns with a firm’s quality management systems. Or they may draw incorrect conclusions about the audit firm more generally, beyond what is reported.

When evaluating potential changes, CPAB should strive to minimize these risks as part of its disclosure approach. We believe these risks should be manageable by including appropriate cautionary language and explanations. The potential risks are not, however, on their own sufficient justification for not providing additional disclosure and enhancing CPAB’s reporting.

## 2. Communication to audit committees

### a) Should CPAB pursue the 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?

Yes, we believe it is important that CPAB pursue amendments to its Rules to make this sharing mandatory.

Currently, a substantial proportion of individual audit file inspection results are not shared with the relevant audit committee under the existing voluntary *Protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees* (Protocol). For example, in 2020, about 30% of files with “significant findings” were not shared with the relevant audit committee. In 2019, about 25% were not shared. In our view, these rates undermine public confidence in the voluntary Protocol.

We also note that in 2020, only 9 of the 11 firms inspected by CPAB were participants in the Protocol. Again, the lack of participation suggests the investing public’s interest is not being well served by a voluntary approach.

We believe that all audit committees should receive the results of individual file inspections as it is directly relevant to their role within our regulatory system. In short, mandating disclosure will ensure that audit committees are better able to:

- discharge their obligations in overseeing the work done by their auditors;
- evaluate whether the financial statements may need to be reviewed and/or restated;
- assess whether the reporting issuer should update and correct any public disclosure with respect to its financial reporting; and
- assess whether the reporting issuer is getting value from the audit firm or whether it should continue to have confidence in the audit firm’s work.

We understand that some audit firms may not currently share the results because the results may not raise significant issues for the reporting issuer’s financial statements. Or perhaps the audit firm feels the results may be misunderstood by an audit committee that lacks sophistication or experience. In these circumstances, additional effort may be required by the audit firms to educate and explain the process and the relevance of any findings by CPAB.

However, we do not agree that this justifies withholding the results of individual audit file inspections from audit committees. The better approach should be to err on the side of disclosure and empower the audit committee to judge the relevance of the information or seek to clarify any potential issues.

**b) Should this sharing of information be mandatory for all reporting issuers? Why or why not?**

Yes, we believe it should be mandatory for all reporting issuers.

As noted above, we understand some audit firms may be reluctant to share the results with audit committees that may have less knowledge or experience with audit procedures and CPAB's work. Broadly speaking, this reluctance may be more pronounced in respect of audit committees of venture issuers, who are exempt from financial literacy requirements because of challenges these issuers may have in recruiting directors.

While we acknowledge there is merit in applying proportionality in regulatory requirements in some situations, we do not believe this is one of them. In our view, disclosure should be mandated for all reporting issuers, including venture issuers. Again, given the important role that audit committees play, as well as the importance of CPAB's audit file inspections, we believe all audit committees should receive the results.

**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.**

Yes. We believe there is merit in allowing CPAB to make such disclosure as it could raise general awareness of how audit firms are carrying out their work, particularly for the reporting issuer community considering new audit engagements.

Disclosure may also be helpful in nudging audit firms to continually improve and keep pace with their "best-in-class" competitors.

However, while such disclosure has several benefits, we also acknowledge it comes with certain risks. For example, investors may not fully understand how to interpret the disclosure, or what "it says and does not say" about the financial statements audited by that audit firm.

We believe these risks can be addressed through supplemental cautionary language and explanation in the disclosure. This could be achieved, for example, by including the following information:

- **Explain the sample selection methodology:** Clearly and plainly explain the risk-based approach used to select the sample of files that were reviewed, noting that the methodology identifies audits that have the highest risk of a material error or misstatement.

- **Explain how to interpret the results:** Indicate the size of the sample relative to the number of audits typically completed by the audit firm over the relevant period and that the sample is not representative of a firm's audit work.
- **Include a link to more detailed information:** Similar to the U.S. Public Company Accounting Oversight Board's "[What an Audit Deficiency in an Inspection Report Does and Does Not Mean](#)", CPAB could provide similar information to ensure the readers have a clear understanding of the firm's inspection procedures.

**b) What type of information would be most useful and how would this information be used?**

From the investor perspective, the names of individual audit firms with "significant findings" (as defined in the Protocol) would be useful information and should be disclosed. This should include a description of the nature of those findings, together with any recommendations made by CPAB, and any remediation undertaken by the audit firm.

Disclosure along these lines would:

- **Promote improved audit quality:** Audit firms will be subject to increased scrutiny and accountability which would foster improved audit practices.
- **Better protect investors:** Increased awareness of significant findings for an audit firm could cause other audit committees that retained that firm to consider whether those findings might be applicable to their situation, including whether they need to review their financial statements.
- **Better align with international practice:** As outlined in the consultation, CPAB publicly discloses far less information than its counterpart in other highly developed capital market jurisdictions. This includes the U.S., which publicly discloses all individual audit firm inspection reports, the U.K., which currently publishes individual audit firm inspection reports for each major audit firm, and Australia, where individual audit firm inspection reports for each of the largest 6 firms are made public.

We also believe that protecting the investing public's interest requires disclosure, at a minimum, in cases:

- where there is enforcement action being taken; and/or
- where the report has identified potential material misstatements such that a re-statement of the financial reports may be required.

**c) Should these disclosures be provided for all inspections of Participating Audit Firms?**

As outlined above, there are certain minimum situations where disclosure of private individual audit firm inspection reports should be required. However, we believe that it is better to promote consistency and seek to disclose these reports for all inspections of participating audit firms to ensure a level playing field.

**4. Disclosures related to CPAB's enforcement actions****a) How would you use information about CPAB's enforcement actions?**

Investors would likely use enforcement information to gauge how comfortable they are on relying on a particular reporting issuer's financial statements.

**b) Should CPAB's disclosures about enforcement actions apply to all enforcement actions or be focused on specific (categories/types) breaches of professional standards?**

While some enforcement actions might be more relevant to investors than others, we believe information regarding all categories/types of enforcement action should be published.

This should include, at a minimum:

- the name of the audit firm;
- a description of the enforcement action and the reasons for the action;
- details regarding any potential material misstatements in financial reporting; and
- any remediation undertaken by the audit firm.

Again, any risks of investors misinterpreting disclosed enforcement information could be addressed by clearly communicating what conclusions can and cannot be drawn from it.

If CPAB ultimately decides to take a more restrictive approach to disclosure of this information, then at a minimum, we recommend:

- requiring disclosure of all sanctions and “continuing restrictions”; and
- publishing detailed criteria for exercising CPAB’s discretion to publish any other types of enforcement actions (see for example, the criteria in the U.K.’s [Publication Policy \(Audit Enforcement Procedure\)](#)).

Criteria would include consideration of whether publication would:

- help maintain public confidence in financial reporting;
- protect investors and other users of financial statements; and
- act as a deterrent against misconduct.

## Conclusion

Audit quality is an essential element of investor protection in our regulatory framework. Equally important is that CPAB be able to provide information to the public to promote investor protection and greater transparency and accountability on the part of auditing firms. We support CPAB's efforts in this respect and thank you for the opportunity to provide our comments and views in this submission.

We would be pleased to discuss our submission with CPAB should you have questions or require further explanation of our views on these matters. Please contact me at [jp.bureaud@faircanada.ca](mailto:jp.bureaud@faircanada.ca).

Sincerely,



Jean-Paul Bureaud,  
Executive Director  
FAIR Canada