

Update on feedback received and next steps for CPAB’s disclosures consultation

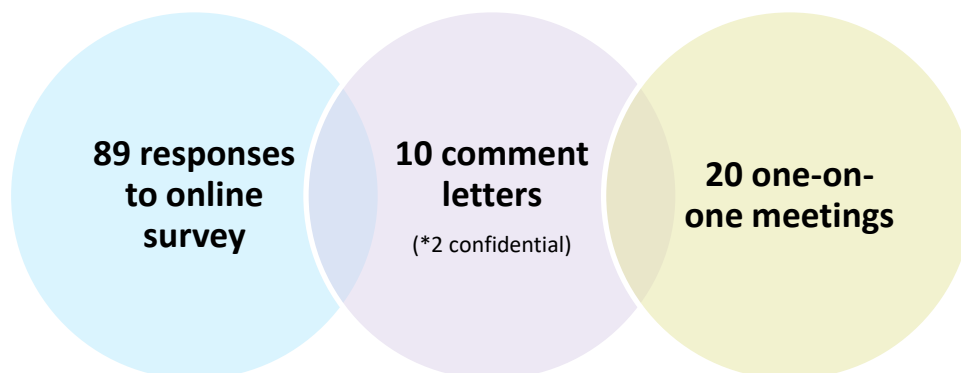
In 2021 CPAB conducted a public consultation to gather stakeholder input and invite a dialogue on potential changes to the information that we disclose about the results of our regulatory assessments.

This document summarizes feedback we received related to the three core areas of disclosures as well as next steps and planned timing.

CPAB is currently considering potential changes to our disclosures and their associated legal considerations. CPAB plans to complete its review of alternatives later this year.

2021 consultation activities

Through our 2021 public disclosures consultation CPAB heard the views of over 100 stakeholders via our [online survey](#) , [comment letters](#) and one-on-one interviews. We heard from audit committee chairs and members, investors, audit firm partners and professionals, as well as regulators and public company management. The diverse views of these stakeholders provided CPAB with strong perspectives and considerations as we develop proposed changes to our disclosures.



We specifically sought feedback on the following disclosures:

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

Over 60 per cent of stakeholders said CPAB should significantly increase or make targeted improvements to our disclosures.

What we heard

Communication to audit committees

In 2014 CPAB implemented the [Protocol for Audit Firm Communication of CPAB Inspection Findings](#) (Protocol). Audit firms that voluntarily participate in the Protocol share significant file-specific inspections findings with their reporting issuers' audit committees. In 2021, 36 of the 38 files with significant findings were shared by the audit firm with the relevant audit committee under the Protocol (2020: findings shared with 24 of 35 reporting issuer audit committees).

As part of the 2021 disclosures consultation, CPAB sought input on whether CPAB's Rules and legislation should be amended to make the sharing of the results of individual audit file inspections with the audit committee mandatory.

Over 85 per cent of respondents support mandatory sharing of individual audit file inspection results with the respective audit committee on the basis that this information supports the audit committee's oversight of their auditor.

Approximately 12 per cent of respondents, including some audit firm professionals and investors, felt that a sufficient number of audit firms are already participating in the voluntary protocol, making it unnecessary to make the disclosure mandatory. These respondents also questioned whether the mandatory reporting should be different between TSX and TSX-V issuers, consistent with current differences in the governance of reporting issuers listed on the junior stock exchanges.

Consultation question – Do you think it should be mandatory for audit firms to share reporting issuer-specific inspection findings with the audit committee of the issuer?				
	Audit committee chair or member	Audit firm partner/professional	Investor	Other
Yes, it should be mandatory that inspections findings are shared with the audit committees of all reporting issuers	100%	64%	76%	80%
Yes, inspections findings should be shared with certain reporting issuers (above a market capitalization or listed on the TSX Exchange)	-	12%	6%	7%
No, I am comfortable with retaining the current voluntary approach	-	24%	18%	13%

Disclosures related to CPAB's enforcement actions

In our request for feedback, we asked respondents which type of enforcement actions should be publicly disclosed.

Eighty-five per cent of respondents supported at least some level of increased disclosure, with a small group indicating they were satisfied with the current approach where enforcement actions are aggregated in our annual report.

The level of support for increased disclosure aligned with the level of significance of the enforcement action taken with the most support for disclosures related to termination of a firm’s ability to conduct public company audits or restrictions on a firm’s auditing practice.

Approximately 36 per cent supported disclosing enforcement actions that are more remedial in nature, such as the design, adoption or implementation of policies and mandatory professional development.

Consultation question – Which of the following enforcement actions do you think CPAB should publicly disclose? (Select all that apply)				
	Audit committee chair or member	Audit firm partner/professional	Investor	Other
Termination of a firm’s ability to conduct public company audits	75%	71%	71%	85%
Restrictions on an audit firm’s or a professional’s auditing practice including termination of specific engagements	81%	57%	71%	69%
Assignment of a reviewer/supervisor or independent monitor to oversee compliance with an audit quality improvement plan and/or firm compliance with professional standards	53%	29%	50%	69%
Design, adoption or implementation of policies by a firm to ensure compliance with professional standards including additional professional education of partners and professionals	34%	7%	43%	62%
I am satisfied with the current level of disclosures and would not recommend any changes	9%	14%	14%	8%
Don’t know/need more information	-	-	7%	15%

Disclosing results of CPAB’s regulatory oversight activities

Respondent views on disclosure of CPAB’s regulatory oversight activities were varied though over 60 per cent are supportive of CPAB publicly disclosing additional information, with another 12 per cent noting they would be supportive of increased disclosures if there was no significant impact on the cost or timeliness of CPAB’s work.

Respondents that were supportive of additional disclosure noted:

- Understanding the inspection results of each firm is important to supporting the oversight role of the audit committee.
- Information on firm inspection results could be considered material to the capital markets.

While many respondents were supportive, several respondents noted there is risk that the information could be misinterpreted. Concerns regarding misinterpretation of these disclosures related to the fact that:

- CPAB’s risk-based file selection process focuses on more challenging audit files which may result in a higher number of inspection findings.
- CPAB selects only a sample of files to review and inspection findings from that sample would not necessarily nor should be expected to represent expected findings in all files.
- CPAB’s inspection sample size can be smaller for smaller firms than for larger firms and inspection results could be significantly influenced by a relatively small number of inspection findings.

Respondents also commented that CPAB should ensure that reporting issuer-specific information remains confidential.

Respondents that were not supportive of these disclosures raised the following concerns:

- Public disclosure of inspection findings could lead to some audit firms exiting the audit of reporting issuers. This exit of certain firms could make it more challenging for some reporting issuers to engage an auditor.
- Some respondents also questioned whether it would be beneficial to have a different approach to inspection findings for reporting issuers listed on stock exchanges other than the TSX reflecting different governance requirements for those companies.

Consultation question – Do you think CPAB should publicly disclose additional information about the results of our regulatory assessments?				
	Audit committee chair or member	Audit firm partner/professional	Investor	Other
Yes	65%	46%	52%	82%
No	24%	33%	19%	18%
Only if there is no significant impact on cost or timeliness of CPAB’s work	12%	17%	19%	-
Don’t know	-	4%	10%	-

Other key themes from stakeholder feedback

Insight into CPAB’s processes and what our findings mean

Some respondents expressed the view that if CPAB increases its disclosures, it should also increase disclosure of its inspection and enforcement processes and how stakeholders should be interpreting the information. Specifically, respondents were interested in better understanding CPAB’s risk-based selection process, how inspections are performed, how CPAB concludes on its significant findings and how CPAB determines enforcement actions applied to firms.

Evaluating the impact of other rules and legislation

In considering changes to our disclosures, CPAB will carefully evaluate legislation and other rules that could apply to these disclosures. We expect some changes may require amendments to our existing rules and legislation.

The Ordre des CPA du Québec expressed concerns about the interaction of the proposed disclosures with the legal framework in Quebec, specifically the professional oversight rules provided in the Professional Code, the Quebec Chartered Professional Accountants Act and the related regulations and the protection of professional secrecy, as enshrined under section 9 of the Quebec Charter of Human Rights and Freedoms.

What's next?

CPAB is working to finalize proposed changes to disclosures and proposed approach to implementation. As part of these activities CPAB will have discussions with its Council of Governors and provincial securities commissions.

CPAB plans to publish a feedback statement summarizing the planned changes to disclosures later this year. This feedback statement will also outline the planned timing for each area of disclosure.

For changes to CPAB's disclosures that do not require amendments to CPAB's rules or legislation CPAB is targeting implementation by the end of 2022.

Changes that require amendments to our rules and legislation will take place over a multi-year period.

CPAB is committed to implementing the changes to our disclosures in a timely manner and will provide ongoing updates related to the status of this project.