

November 24, 2023

To: Consultation@cpab-ccrc.ca

RE: CPAB 2023 proposed rule amendments (“Rules Amendments”)

We submit that further analysis is required of the proposed rule changes to ensure they are well designed to serve the unique needs to Canada’s venture market. Moreover, enhancements to CPAB processes are necessary regardless of the proposed rules.

Our response below comments on:

1. Designing auditor regulation to serve Canada’s venture market; and
2. Factual, fair and balanced public reporting.

Auditor regulation for the venture market

The proposed rule changes should be reconsidered in the context of the venture market.

1. Access to early-stage capital is a priority for many provincial governments. The venture markets are an important part of our innovation economy with distinct securities regulation, a tendency to attract accredited investors, lean overhead costs, and a focus on operations. Increasing audit requirements impose a disproportionate burden on management of small issuers and divert their focus.
 - o We continue to highlight the UK approach to the Alternative Investment Market as a contemporary model for audit regulation of a venture market that is aligned with securities regulation and capital formation. We strongly encourage CPAB to explore adopting this model in Canada.
 - o It is not clear whether the proposed rules are consistent with conclusions from previous CPAB and CPA Canada audit quality roundtables. We recommend a roundtable approach to gather a balanced perspective around the proposed rule changes including a venture issuer focus group.
2. The necessary analysis of costs, benefits and unintended consequences is largely absent from CPAB’s proposal.
 - o More and more venture issuer audits have been shifting from annually inspected firms which have a high regulatory burden, to less frequently inspected firms. This may be counterproductive to improving transparency. Moreover, it is not established whether this shift is improving or harming audit quality and access to early-stage capital.

3. We understand the proposed rules are incompatible with legislation in Québec. The impact of selective inclusion of findings in public reporting may result in misinterpretation of deficiency rates and the exclusion of some firms. CPAB should ensure its proposed rules remain nationally consistent and avoid creating division.

Factual, fair and balanced public reporting

We continue to highlight the shortfall in due process with regard to CPAB inspection findings. Specifically, there is inadequate due process over file inspection findings (the EFR panel), and we are concerned this may extend to the new standards on quality management.

1. Currently EFR Panel decisions are based on summary documents prepared by CPAB staff that the firms are not permitted to read or respond to. Firms are not permitted to attend the EFR Panel meeting.
 - Similar to the PCAOB's approach, the best point to ensure a correct fact pattern is prior to an initial EFR decision. Firm review of the EFR Panel documentation and the ability to provide an alternate viewpoint is a cost-effective, expedient, and necessary enhancement.
 - Without access to the EFR Panel documentation and discussion, firms are unable to evaluate whether to request a review proceeding. The lack of such proceedings is not an indicator that firms agree with the EFR Panel's decisions.
 - As EFR Panel deliberations involve complex professional judgments, the membership and expertise of the EFR Panel is critical to public trust. The public should have information about the appointment process, recency and depth of auditing expertise of the members of the EFR Panel, including experience with venture issuers.
2. As CPAB's approach to file inspection selections is risk-biased, findings are more likely to be negative than representative. Balanced and contextualized public reporting is necessary to avoid harm to public trust and to the reputation of an individual, firm, market segment, and the CPA profession.
 - Equally prominent use of less subjective data points is necessary such as the percentage of files inspected that result in restatements.
 - CPAB conclusions about a firm may differ from those of other audit regulators and audit committees. Regular calibration of CPAB findings should be undertaken including seeking feedback from venture audit committees, correlation against restatements and against CPA regulatory conclusions.
 - The proposed rules continue to use the vague term "significant potential weaknesses or deficiencies" but omit a corresponding definition.

3. CPAB should revisit its (mandatory) recommendations process to ensure they are well-considered, cost-effective and have reasonable timelines. These recommendations are frequently issued just prior to reporting season requiring firms to split focus at the most critical stage of the audit cycle.

It is not clear that the proposed rules would serve the needs of the national venture market at an appropriate cost. Further CPAB processes require enhancement to support fair and balanced public reporting. Finally, as it is primarily risk-biased information available, it is important to reflect on the proportionate benefits of regulatory burden for the remaining population of issuers.

Sincerely,
MNP LLP