

MARCH 2024



cpab  
ccrc

Canadian Public  
Accountability Board

Conseil canadien sur  
la reddition de comptes

# **CPAB Regulatory Oversight Report**

## 2023 Annual Inspections Results

CPAB-CCRC.CA



## CPAB's regulatory disclosures

As part of our strategic commitment to advancing a quality-driven culture across auditors of Canada's public companies, we have taken steps to expand the information we disclose publicly.

CPAB is increasing transparency in relation to the results of our regulatory assessments and enforcement activities. It is our view that doing so supports stakeholders in Canada's capital markets by providing more information on the results of CPAB's oversight activities and responds to increasing public expectations about access to information from regulators. In addition, for some audit firms with significant quality issues, we believe it improves audit quality by increasing the motivation to address audit quality deficiencies in a timely manner. Finally, proposed changes are aligned with disclosures made by audit regulators in many international jurisdictions.

In January 2023, CPAB implemented two of the disclosure recommendations stemming from our 2021 public consultation, in accordance with our current powers. Specifically, this entails:

- Publishing significant enforcement actions imposed on a firm as a consequence of inspection findings.
- Disclosing recommendations which were included in a firm report but not addressed by the firm.

In the fall of 2023, we conducted a public consultation on proposed rule changes to facilitate the implementation of our other two disclosure recommendations:

- Mandatory disclosure of reporting issuer-specific inspection findings to their audit committee.
- Publication of condensed individual firm inspection reports for each audit firm inspected by CPAB in a given year.

Following the consultation, during which CPAB heard from a range of stakeholders, we are in the process of obtaining all approvals from the relevant provincial government and securities regulators. The timing of final approval and any changes that are identified in this approval process is uncertain. At this point, we anticipate that these approvals will be completed by the end of 2024.

Implementing these proposed rule changes requires amendments to the *CPAB Act*. Such amendments would be at the discretion of the Ontario legislature.

When the rule and legislative changes are complete, we will publish a plan detailing how and when these new disclosures will be implemented, in accordance with applicable laws in each relevant jurisdiction. If the required rule and legislative changes are complete by the end of 2024, we anticipate the changes to be effective for our 2025 inspections with mandatory audit committee reporting occurring throughout 2025 and our first public inspection reports on the 2025 inspections published in early 2026.

For more information, visit [cpab-ccrc.ca/insights/disclosures](https://cpab-ccrc.ca/insights/disclosures).



# Operational report

## CPAB's assessment landscape

at December 31, 2023:

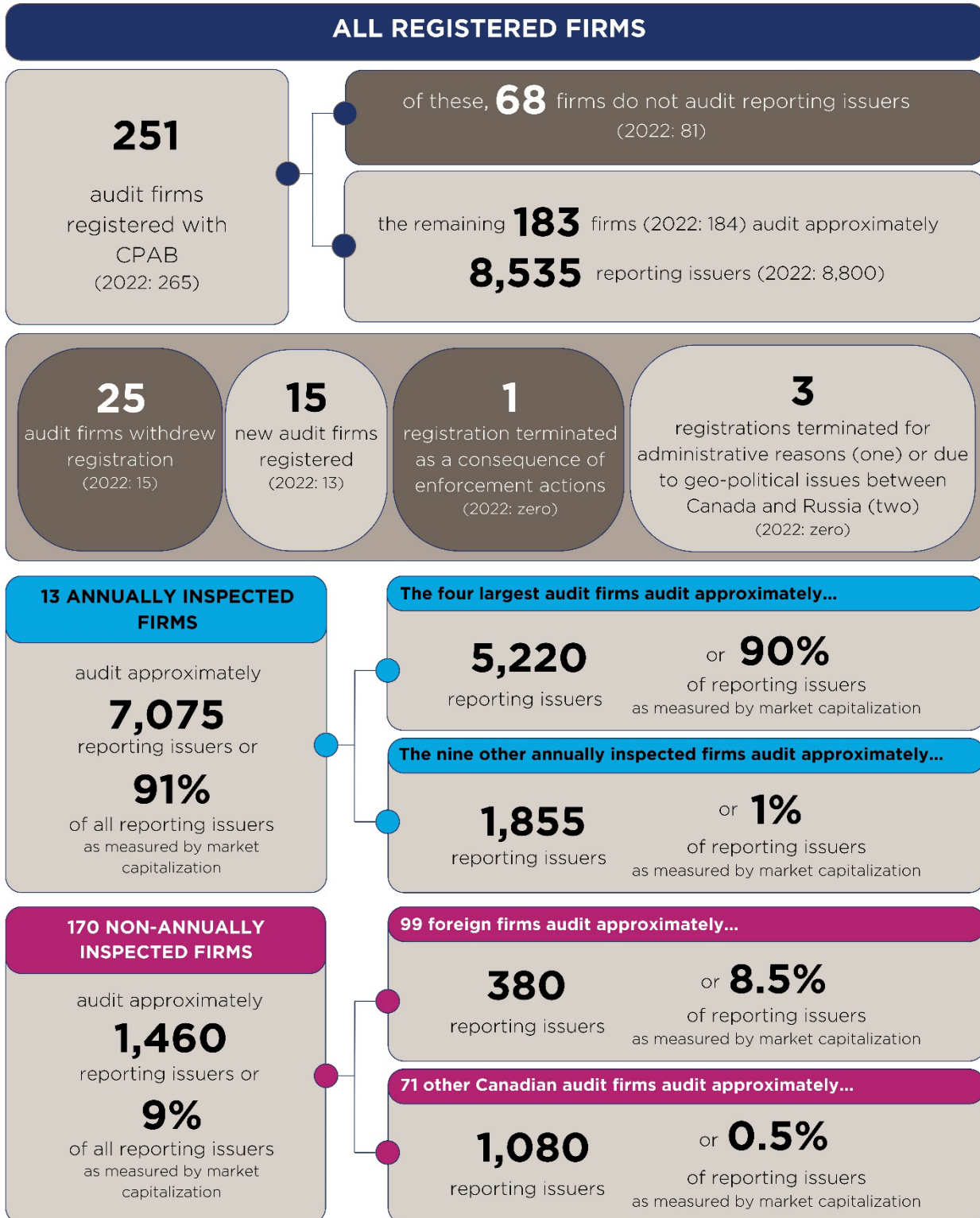


Figure 1



## Regulatory oversight

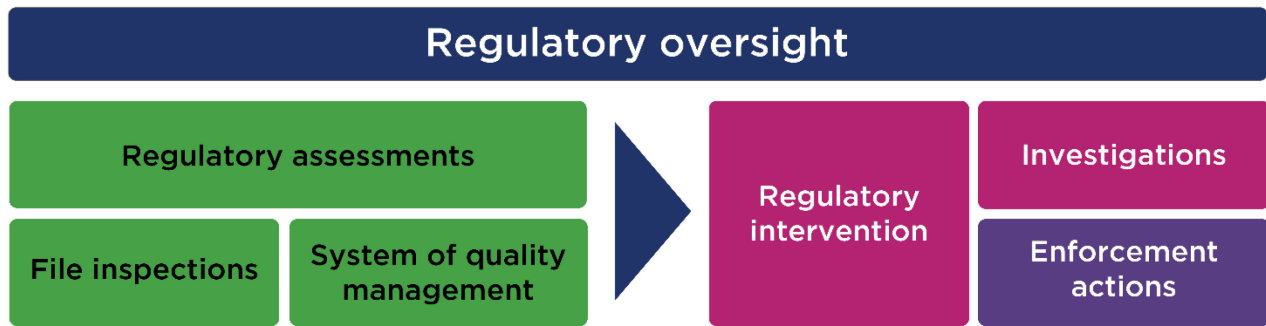


Figure 2

CPAB's regulatory oversight of public accounting firms that audit Canadian reporting issuers includes the inspection of completed audits of financial statements, assessment of the firm's system of quality management<sup>1</sup> and regulatory intervention.

This year, we saw mixed results in the firms inspected, with an aggregate findings rate of 34 per cent compared to 33 per cent in 2022. We have observed a strong correlation between the firms that invest in a robust system of quality management to support the consistent execution of quality audits and a lower level of significant findings at those firms.

Of significant concern is the high number of restatements from inspections conducted in the past two years.

We continually evaluate the effectiveness of our regulatory oversight and refine our strategy, enforcement and outreach activities to promote quality audits of Canadian reporting issuers. We publish detailed inspection findings on specific topics through our Strengthening Audit Quality communication series and through thought leadership activities. Our outreach activities, which have expanded the conversation about audit quality matters with a broad range of stakeholders, are outlined on page 33.

### How CPAB chooses files to inspect

CPAB's risk-based methodology for choosing files for inspection (and the specific areas of those files) is biased towards higher-risk audit areas of more complex public companies or areas where the audit firm may have less expertise. It is not intended to select a representative sample of a firm's audit work. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

<sup>1</sup> Since 2018, the inspection of the system of quality management for the four largest audit firms has focused on four key areas that we identified as being critical to audit quality: accountability for audit quality, risk management, talent and resource management and oversight. Starting in 2023, we incorporated governance and leadership (including culture) into our evaluation of accountability for audit quality. We also inspected select aspects of annually inspected firms' implementation of the Canadian standard on quality management (CSQM 1). These are collectively referred to as the system of quality management.



## 2023 regulatory assessments

All public accounting firms that audit a Canadian reporting issuer must register with CPAB<sup>2</sup>. The graphic on page 3 shows the scope of our assessment landscape in 2023.

Firms that audit 100 or more reporting issuers are inspected every year. Starting in 2023, two additional firms are categorized as annually inspected firms, bringing the total to 13 firms (2022: 11) including the four largest audit firms. Collectively, these 13 firms audit approximately 7,075 or approximately 83 per cent of all Canadian reporting issuers or approximately 91 per cent of all Canadian reporting issuers as measured by market capitalization.

### Frequency of firm inspections

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. These *annually inspected firms* include the four largest audit firms and, in 2023, nine additional firms. The nine additional firms are collectively referred to as the *other annually inspected firms*.

We also inspect, at least every two years, firms which audit between 50 and 99 reporting issuers. The remaining firms are inspected periodically based on CPAB's risk analysis. These firms collectively are referred to as the *non-annually inspected firms*.

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<sup>2</sup> Securities legislation defines what constitutes a reporting issuer. Each of the 13 Canadian securities commissions maintains a list of the reporting issuers in their respective jurisdictions.



## File inspections overview



In 2023, we inspected 130 files. The results were mixed, with inconsistency across all categories of firms. We identified significant findings<sup>3</sup> in 44 of the files we inspected.

This 34 per cent finding rate compares to 33 per cent across 132 files in 2022. The increase in the aggregate findings rates was observed in certain annually inspected firms. While there was an improvement in the aggregate findings rates at the non-annually inspected firms, the level of findings at many firms remains unacceptably high.

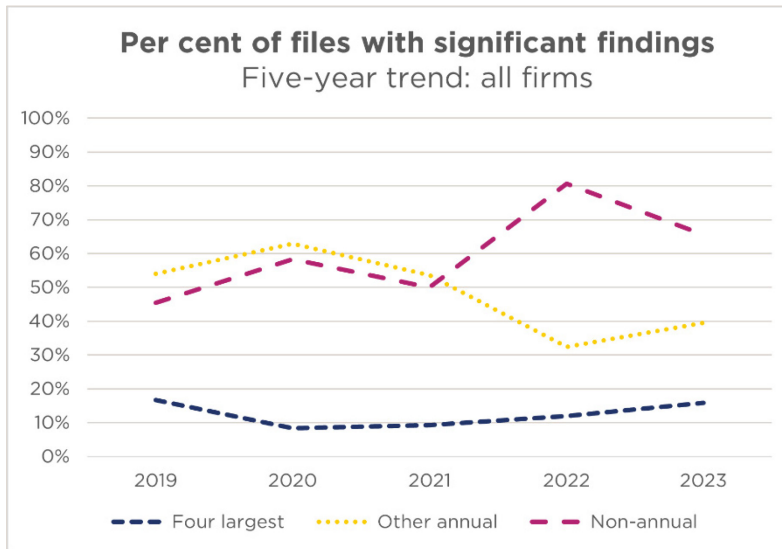


Figure 3

Two of the four largest audit firms met the target of no more than 10 per cent of files inspected with significant findings. One firm has missed the target for the second consecutive year, with significant findings of 29 per cent in each of 2023 and 2022. Another firm that met the target in the prior year did not meet the target in 2023, with significant findings of 14 per cent in 2023.

The aggregate level of significant findings at other annually inspected audit firms increased with a findings rate of 39 per cent (15 of 38 files), compared to 32 per cent (11 of 34 files) in 2022.

The level of significant findings at non-annually inspected firms remains concerning, with a findings rate of 66 per cent (19 of 29 files), compared to 81 per cent (25 of 31 files) in 2022.

For more detail on the results of our inspections, please see page 13 (annually inspected firms), page 17 (four largest firms), page 20 (other annually inspected firms) and page 23 (non-annually inspected firms).

Please see page 29 for information about our enforcement activities.

<sup>3</sup> Significant findings - A *significant inspection 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 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 verify there was no need to restate the financial statements due to material error, or to substantiate that they had obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.



Our inspections in 2023 included 62 files of Toronto Stock Exchange (TSX)-listed entities and 68 non-TSX-listed entities (2022: 69 TSX; 63 non-TSX). In the past five years, the overall level of significant findings in non-TSX-listed entities has remained unacceptably high.

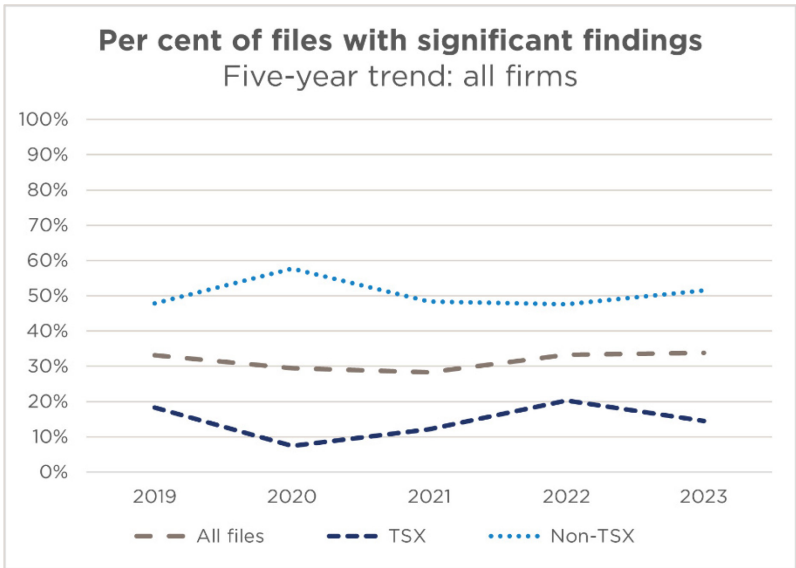


Figure 4

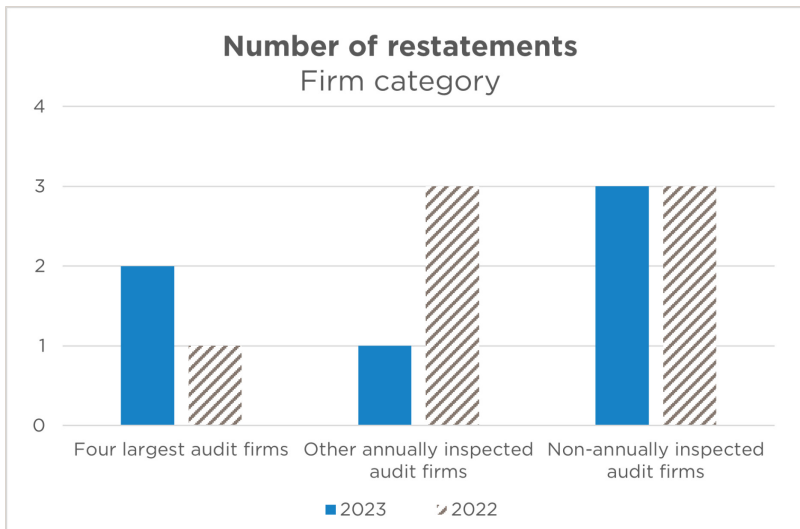


Figure 5

When a significant finding relates to the sufficiency of the auditor’s evaluation of the appropriateness of an accounting policy and related disclosures, the firm must perform additional procedures to re-evaluate its accounting conclusions. If the need for a restatement is identified, the reporting issuer must work with the firm to issue revised audited financial statements as soon as possible—usually within the next quarterly reporting cycle.

Six restatements have been made as a result of significant findings identified during our inspections since our 2022 annual report. Of the six restatements, five resulted from inspections conducted in 2023 and one resulted from an inspection conducted in 2022. This compares to seven restatements reported in our 2022 annual report.



Figure 6 illustrates the industries in which these reporting issuers operated for 2023 and 2022. There is no apparent theme or pattern to the affected industries.

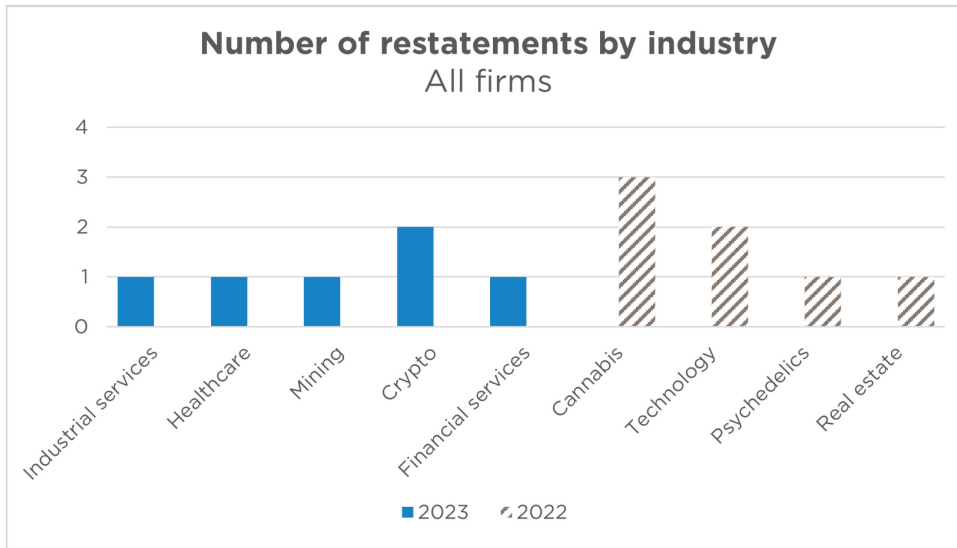


Figure 6

The audit areas resulting in restatements in 2023 included business combinations (mergers and acquisitions), share capital, long-lived assets and debt classification. By comparison, the audit areas resulting in restatements in 2022 included business combinations (mergers and acquisitions), revenue and long-lived assets. The level of restatements resulting from our inspections in the past two years is concerning and raises a broader concern about the sufficiency of the auditor's evaluation of the appropriateness of accounting policies and related disclosures. Please see the section entitled **Inspection findings and trends** on page 10 of this report for more detail on these and other findings.

In 2023, we obtained access to and reviewed component auditor working papers located in foreign jurisdictions for 10 files selected for inspections (2022: seven). There was one significant finding in the foreign component auditor working papers we reviewed (2022: one). We requested and were denied access to two component auditor working papers located in China. CPAB does not currently have an agreement with Chinese authorities which would enable access to these working papers.





## System of quality management assessments



All firms were required to design and implement a system of quality management in compliance with the new quality management standard by December 15, 2022 and perform an evaluation within one year. We have observed a strong correlation between firms with a robust system of quality management and a lower level of significant findings identified through our file inspections.

Three of the four largest audit firms met the target assessment ratings of *acceptable* or *acceptable with opportunities for enhancement* in 2023 across the four key areas of focus: governance and leadership's accountability for audit quality, risk management, talent and resource management and oversight. The firm that did not meet the target for the four key areas of focus also did not meet the target of no more than 10 per cent of files inspected with significant findings. Two of the six files with significant findings at that firm resulted in restatements of the audited financial statements. A decision regarding further regulatory intervention will be made in 2024.

Our assessments in 2023 for other annually inspected firms were limited to the design and implementation of select aspects of the system of quality management. We found that many of the other annually inspected firms did not have all relevant controls across the four key areas of focus fully designed and implemented by December 15, 2022.



## Inspection findings and trends: ALL FIRMS

### Common themes in inspection findings

A substantial portion of significant findings in 2023 related to the following issues or concerns, which we reported as common themes in our [interim inspections report](#):

- The auditor's identification and assessment of the risks of material misstatement in the financial statements.
- Services provided by a service organization, such as payment processing, online sales processing or crypto custodian services.
- Perpetual inventory systems.
- Audit documentation, and supervision and review.

In November 2023, we published [Audit considerations relating to an entity using service organizations: Strengthening audit quality](#) and in March 2024, we published [Identifying and assessing the risks of material misstatement: Strengthening audit quality](#). These communications to all audit firms registered with CPAB provided more detail on the nature of deficiencies, CPAB's expectations and the practices observed in audit files with no significant inspection findings. These and other communications are available in the Resource Centre section of our website.

Additional areas in which there were significant findings related to:

- Evaluation of the appropriateness of accounting policies and related disclosures.
- Inventory held with third parties.

#### Evaluation of the appropriateness of accounting policies and related disclosures

Remediation of significant findings in the audit work supporting the assessment of management's accounting policies and related disclosures resulted in six restatements (2022: seven). The following are examples of deficiencies that led to restatements:

- The engagement team did not consider contradictory information in the reporting issuer's other public filings, such as press releases, management's discussion and analysis and the annual information form that indicated the accounting treatment may not have been appropriate given the disclosed facts.
- The evaluation of unadjusted errors identified by the auditor only focused on the size of the error and did not consider whether there was any indication of management bias or a risk of other unidentified errors that would require additional audit work.
- The engagement team did not sufficiently review contracts, resulting in relevant terms that impacted the timing of revenue recognition not being identified and evaluated.
- Incorrect conclusions arose because the engagement teams either did not consult with the firm's technical accounting experts on the appropriateness of the accounting treatment or provided incomplete information to the firm's technical accounting experts.



### Inventory held with third parties

In our interim report, we highlighted concerns over the sufficiency of audit evidence obtained when reporting issuers rely on perpetual inventory systems. In addition, we have identified concerns over the sufficiency of audit procedures performed over material inventory balances held with third parties. In one case, the auditor's primary audit procedure to support the existence and condition of inventory was confirmation with the third party that was also a customer without sufficient consideration of whether to conduct a physical inspection of the inventory or to undertake other audit procedures. This is concerning because the value of the inventory was many times materiality and represented a significant portion of the inventory reported in the financial statements.

The audit approach described above placed implicit reliance on the effectiveness of the controls at the third party, without obtaining an understanding of the third party's controls over inventory processing, including inventory count procedures. While the auditing standards contain a generalization that the reliability of audit evidence is increased when the auditor obtains the information directly from independent sources, the standards require specific additional audit procedures when confirmations are used as evidence of the existence and condition of inventory under the custody and control of third parties.

### System of quality management observations

We have observed practices that demonstrate a firm's commitment to consistently performing quality engagements by establishing a culture that recognizes and reinforces the firm's role in serving the public interest. Such practices include:

- A governance and leadership structure that includes a board of directors with members who are independent of firm leadership.
- The importance a firm places on quality is evident in its strategic decisions and supported through actions, including the firm's financial and operational priorities. This includes investing in a system of quality management that is iterative and responsive to changes in the nature and circumstances of the firm and its engagements.
- Leadership has defined, measurable key performance indicators that align with their responsibilities and accountabilities to drive the expected behaviours.
- Employee engagement surveys are performed throughout the year and consistently achieve high response rates.
- The firm monitors the results of its employee engagement surveys and evaluates what changes to the design, implementation and operation of relevant controls are necessary. For example, if survey responses indicate that staff do not feel they have sufficient time to perform assigned work or that budgets are unrealistic, the firm validates the response to determine if the results indicate that controls are not appropriately designed, implemented or operating effectively.
- Leadership and staff are held accountable for violations of professional standards, including independence breaches, unethical behavior, and poor audit quality results.



Engagement files with no significant findings are often supported by robust firm-level controls and processes to ensure partners and staff assigned to specific audits collectively have the appropriate competencies and enough time for senior members of the team to direct, supervise and review the work performed throughout the engagement. When firm leadership has visibility on the progress of audit work and changes in risk, they can resolve issues promptly and proactively. Often, the significant findings in CPAB inspections are matters that should have been identified by senior members of the engagement team through detailed review. In October 2022, we published **System of quality management call to action: Strengthening audit quality**. The observations in that publication remain relevant.

ALL FIRMS



## Annually inspected firms

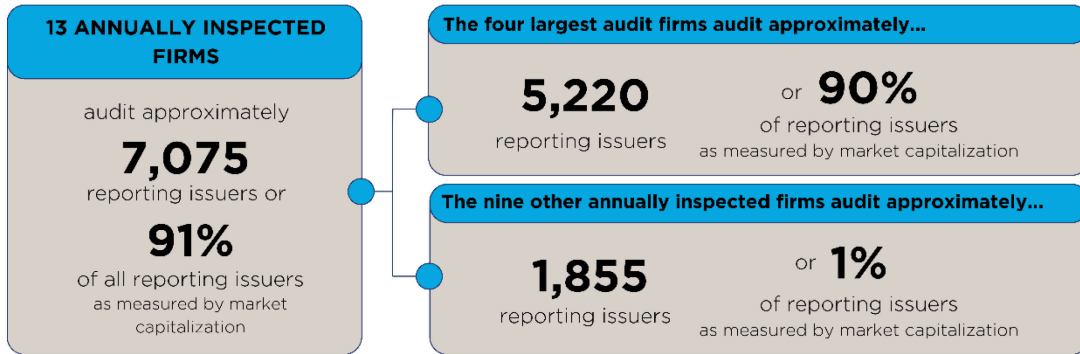


Figure 7

### Annually inspected firms

Starting in 2023, two additional firms are categorized as annually inspected firms. Historical inspection results presented from 2019 to 2022 only include the inspection results for the 11 firms that were categorized as annually inspected firms in those years.

At the 13 annually inspected firms (2022: 11), CPAB inspected 101 audit files in 2023 (2022: 101) and identified significant findings in 25 files (2022: 19).

- Four largest audit firms: 63 files inspected (2022: 67); 10 with significant findings (2022: eight).
- Nine other annually inspected audit firms (2022: seven): 38 files inspected (2022: 34); 15 with significant findings (2022: 11).

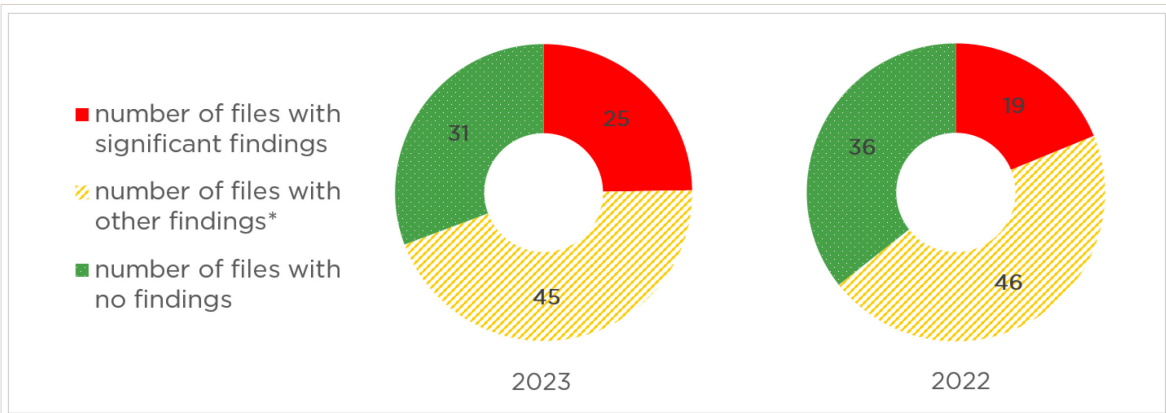


Figure 8

\* *Other findings* - 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.



Of files inspected at these firms, 25 per cent had significant findings (2022: 19 per cent). In 2023, our annual inspections included 59 files of TSX-listed entities and 42 non-TSX-listed entities (2022: 65 TSX; 36 other).

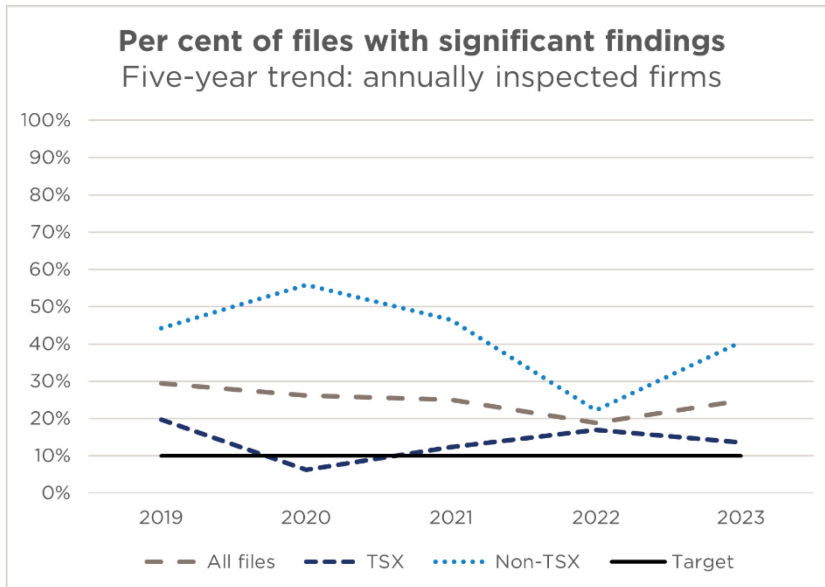


Figure 9

Figure 10 reflects the audit areas most frequently reviewed at the 13 annually inspected firms (2022: 11 firms) in 2023 and 2022 and the level of significant findings. These areas were selected because they were generally material to the reporting issuer's financial statements or included complex issues or judgment.

Audit area	2023 (13 firms)		2022 (11 firms)	
	Files inspected	Significant findings	Files inspected	Significant findings
Revenue and related accounts	82	11	78	4
Long-lived assets <sup>1</sup>	52	1	54	7
Business combinations	41	3	46	3
Inventory	35	5	34	1
Financial instruments <sup>2</sup>	34	5	24	5
Resources <sup>3</sup>	9	1	2	0

Figure 10

<sup>1</sup> Includes goodwill, intangible assets, investment properties and property, plant and equipment.

<sup>2</sup> Includes investments, loans, allowance for credit losses, derivative assets/liabilities, claims liabilities and reinsurance assets.

<sup>3</sup> Includes exploration and evaluation assets and mining properties, related expenses and reclamation provisions.



Figure 11 shows the number of files inspected and the number of significant findings at the 13 annually inspected firms (2022: 11 firms) in the specified industries in 2023 and 2022.

Industry	2023 (13 firms)		2022 (11 firms)	
	Files inspected	Significant findings	Files inspected	Significant findings
Technology	18	8	17	3
Mining	14	4	7	1
Industrial goods and services	12	4	12	2
Financial services	10	2	13	1
Consumer products	9	1	5	0
Oil and gas	6	1	5	0
Healthcare	6	2	5	1
Real estate	5	0	4	0
Retail	5	0	2	1
Cannabis	5	2	6	2
Communication and media	3	1	0	0
Crypto	3	0	3	2
Clean technology	2	0	3	1
Professional and commercial services	1	0	1	0
Transportation services	1	0	3	0
Psychedelics	1	0	4	2
Life sciences	0	0	3	0
Entertainment	0	0	1	1
Agriculture	0	0	1	1
Forest products and paper	0	0	2	1
Utilities and pipelines	0	0	4	0
<b>Total</b>	<b>101</b>	<b>25</b>	<b>101</b>	<b>19</b>

Figure 11

Since our 2022 annual report, our inspections of annually inspected firms resulted in restatements by reporting issuers in the following industries: industrial services (one), healthcare (one) and financial services (one). There were four restatements at annually inspected firms reported in our 2022 annual report. The following inspected audit areas resulted in restatements since our 2022 annual report: long-lived assets, debt classification and share capital.

## Firm-specific assessments

CPAB's firm-specific assessments include the inspections of completed audits of selected Canadian reporting issuers and each firm's system of quality management.

Since 2018, we have assessed four key areas of focus identified as being critical to audit quality at the four largest firms: accountability for audit quality, risk management, talent and resource management and oversight. Starting in 2023, we incorporated governance and leadership (including culture) into our assessment of accountability for audit quality. We also inspected select aspects of each annually inspected firm's implementation of the Canadian standard on quality management (CSQM 1). These are collectively referred to as the *system of quality management*.





## Deloitte LLP, Ernst & Young LLP, KPMG LLP & PwC LLP

**The four largest audit firms audit approximately...**

**5,220** reporting issuers

or **90%** of reporting issuers as measured by market capitalization

Figure 12

We inspected 63 files (2022: 67) at the four largest firms and identified significant findings in 10 of those files (2022: eight). Sixteen per cent of files inspected at the four largest firms had significant findings (2022: 12 per cent). Two of the four largest firms met the target of no more than 10 per cent of files inspected with significant findings (2022: three). These two firms had one file each with a significant finding in 2023 (2022: one firm with one significant finding and one firm with no significant findings). Another firm that met the target in 2022 missed the target in 2023, with two files (14 per cent) with significant findings (2022: one file; six per cent). The fourth firm missed the target in both 2023 and 2022, with six files (29 per cent) with significant findings (2022: six files; 29 per cent).

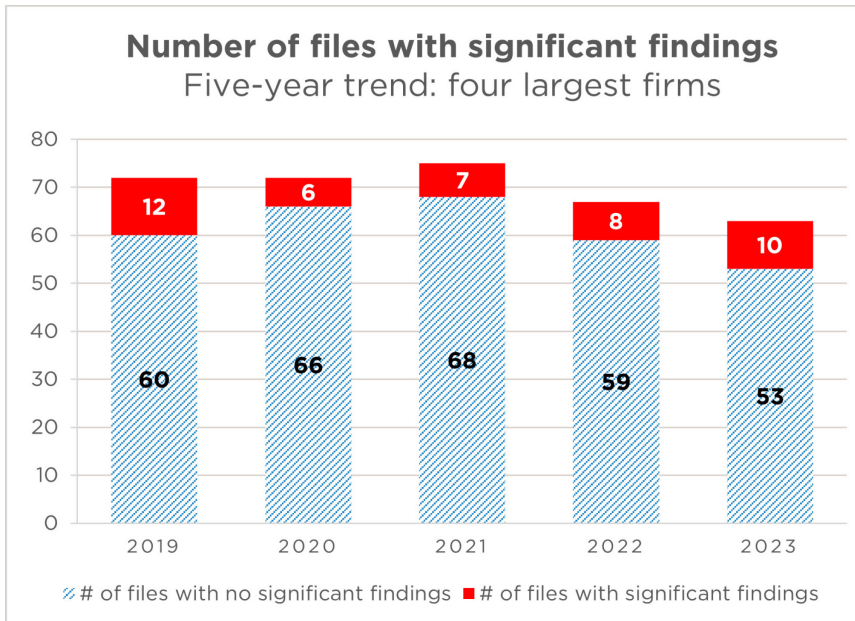


Figure 13

The remediation of significant findings identified in 2023 is either complete or is in progress. Two restatements have been made as a result of significant findings identified during our inspections since our 2022 annual report (2021: one).



FOUR LARGEST FIRMS

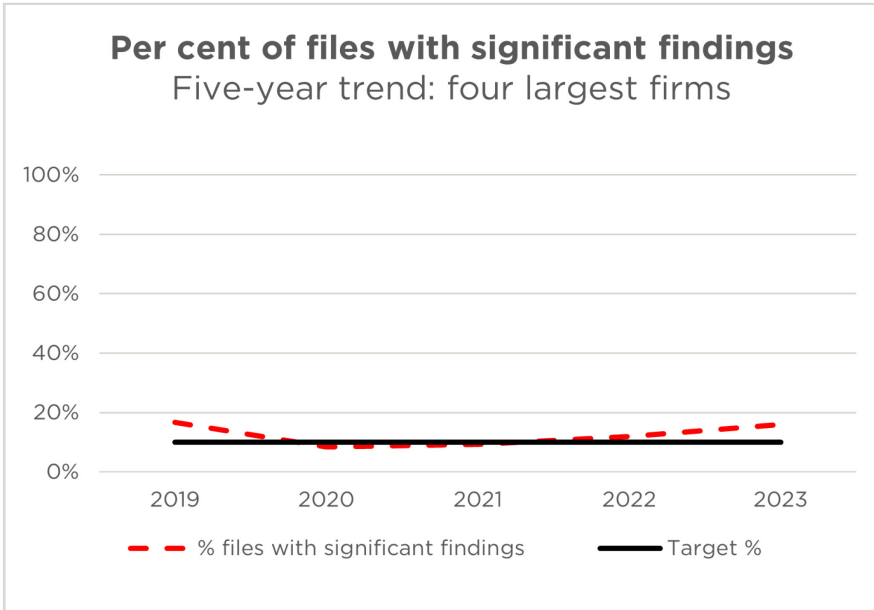


Figure 14

In addition to inspecting selected audit files, CPAB also annually assesses the system of quality management at each of the four largest audit firms according to a four-point scale from *acceptable* to *requires significant improvement*, as illustrated in Figure 15. The target is for all four firms to achieve *acceptable* or *acceptable with opportunities for enhancement* in the four key areas of focus.

Three of the four firms achieved CPAB’s target in 2023 and 2022, with their system of quality management assessed as *acceptable* or *acceptable with opportunities for enhancement*. One firm missed the system of quality management target in 2023 and 2022 and was rated as *needs improvement* in all four key areas of focus. None of the four largest firms were rated as *needs significant improvement* in any of the four key areas of focus.

Key areas of focus		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Governance and leadership’s accountability for audit quality	2023	2	1	1	
	2022	3		1	
Risk management	2023	3		1	
	2022	3		1	
Talent and resource management	2023		3	1	
	2022		3	1	
Oversight	2023	2	1	1	
	2022	3		1	

Figure 15

Please see the sections entitled **Common themes in inspection findings** on page 10 and **System of quality management observations** on page 11 of this report for more detail.



## FOUR LARGEST FIRMS

The firm that missed the targets for both the number of files inspected with significant findings and its system of quality management assessment ratings in 2023 and 2022 must perform procedures to identify underlying factors that continue to impact audit quality. This firm will be required to develop and implement specific actions to meaningfully improve audit quality. While this firm continued to make progress to address our observations related to its system of quality management, including documenting, amending and/or implementing new controls and processes, not all deficiencies previously identified were fully addressed. Newly implemented controls could only be assessed for design but not operating effectiveness. A decision regarding escalating regulatory intervention on this firm will be made in 2024.



Crowe MacKay LLP\*, Davidson & Company LLP, De Visser Gray LLP\*, DMCL LLP, Manning Elliott LLP, McGovern Hurley LLP, MNP LLP, Raymond Chabot Grant Thornton LLP, Smythe LLP

**The nine other annually inspected firms audit approximately...**

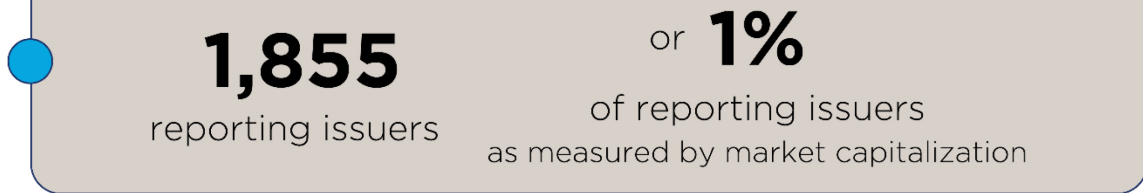


Figure 16

\*Starting in 2023, Crowe MacKay LLP and De Visser Gray LLP are reported as *other annually inspected firms* because they audit 100 or more reporting issuers. Historical inspection results presented from 2019 to 2022 only include the inspection results for the seven firms that were reported as *other annually inspected firms* in those years. Inspection results for 2023 are not directly comparable to prior years due to the two additional firms that are now reported as other annually inspected firms.

We inspected 38 files (2022: 34) at the other annually inspected firms and identified significant findings in 15 of those files (2022: 11). The increase in files inspected is aligned with the increase in the number of other annually inspected firms.

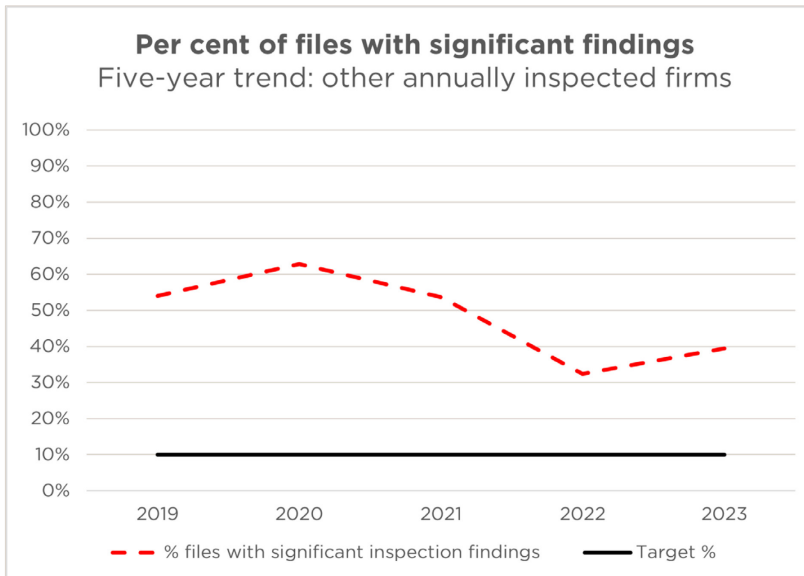


Figure 17

OTHER ANNUALLY INSPECTED FIRMS



OTHER ANNUALLY INSPECTED FIRMS

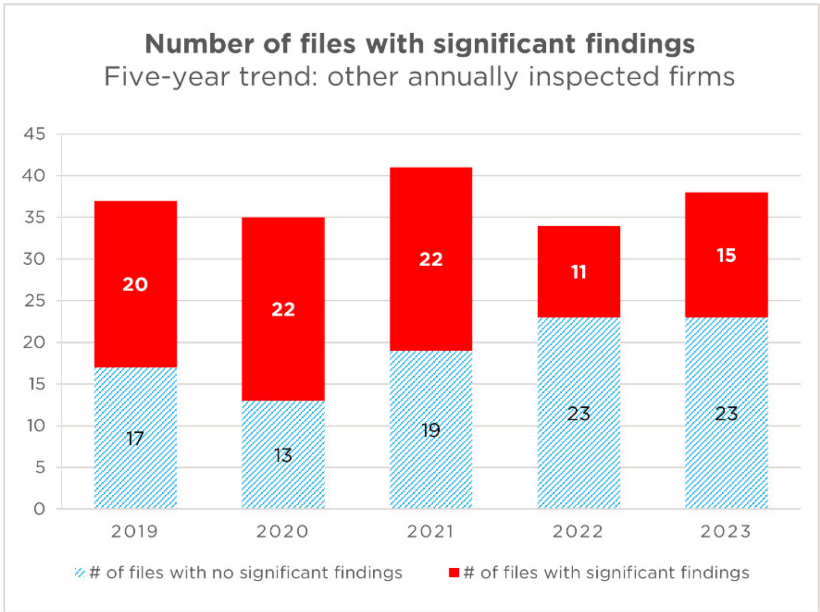


Figure 18

Figure 19 breaks out the number of firms that fell into the following ranges of findings rate in 2023 and 2022: greater than 50%; between 25% and 50%; between 10% and 25% and less than 10%.

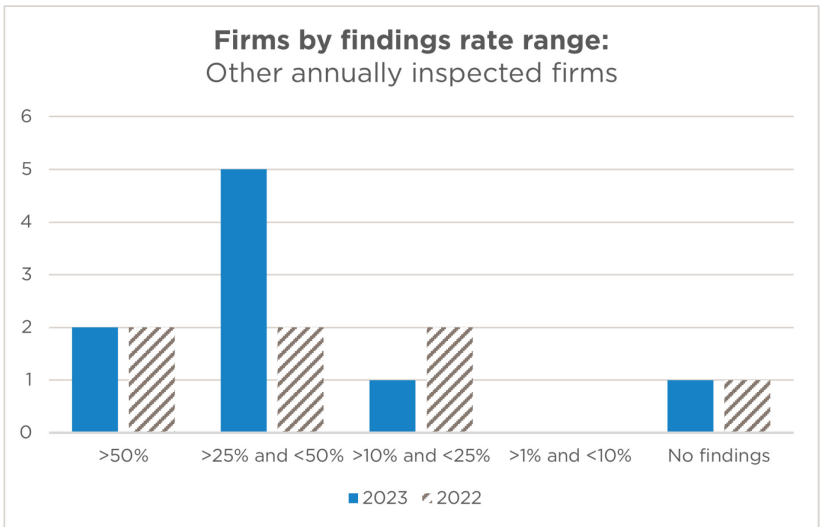


Figure 19



## OTHER ANNUALLY INSPECTED FIRMS

While these firms have made progress in designing and implementing controls and processes that address our four key areas of focus, the inconsistent findings at these firms indicate that more work is needed. Leadership at these firms must commit sufficient qualified resources to operate and monitor their systems of quality management. Firms with significant findings are required to identify underlying factors that continue to impact audit quality. We continue to monitor the implementation of longer-term actions at these firms; this will be critical to achieving the consistent execution of quality audits.

Of the nine other annually inspected firms, enforcement actions were in place for six with unacceptable levels of significant findings over consecutive years. Three of the six firms had improved inspection results in 2023. Decisions will be made in 2024 regarding the continuation, modification or termination of existing enforcement actions.

Further details of our 2023 enforcement actions are outlined in the **Enforcement overview** section on page 29 of this report.

The remediation of significant findings identified in 2023 has either been completed or is in progress. Since our 2022 annual report, one restatement has been required pertaining to the audit area of share capital.

Please see the sections entitled **Common themes in inspection findings** on page 10 and **System of quality management observations** on page 11 of this report for more detail.



## Non-annually inspected audit firms



Figure 20

The year-over-year inspection results for the non-annually inspected firms are not comparable because the composition of this group of firms changes each year based on CPAB’s risk-based methodology for choosing files for inspection. Our risk-based methodology targets files of more complex public companies or industries and audit areas where the audit firm may lack specialized expertise. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

We inspected 29 files (2022: 31) at 17 non-annually inspected audit firms (2022: 21) and identified significant findings in 19 (2022: 25) of these files. This 66 per cent findings rate compares to 81 per cent in 2022. Eight of the files inspected were at foreign firms (2022: three), and we identified significant findings in six of those files. Significant findings were identified in all three of the foreign firm files inspected in 2022.

There have been three restatements as a result of significant findings identified during our inspections at non-annually inspected firms since our 2022 annual report. Two were in the crypto industry and the other was in mining. This compares to three restatements at non-annually inspected firms reported in our 2022 annual report in the cannabis (two) and technology (one) industries.

NON-ANNUALLY INSPECTED FIRMS

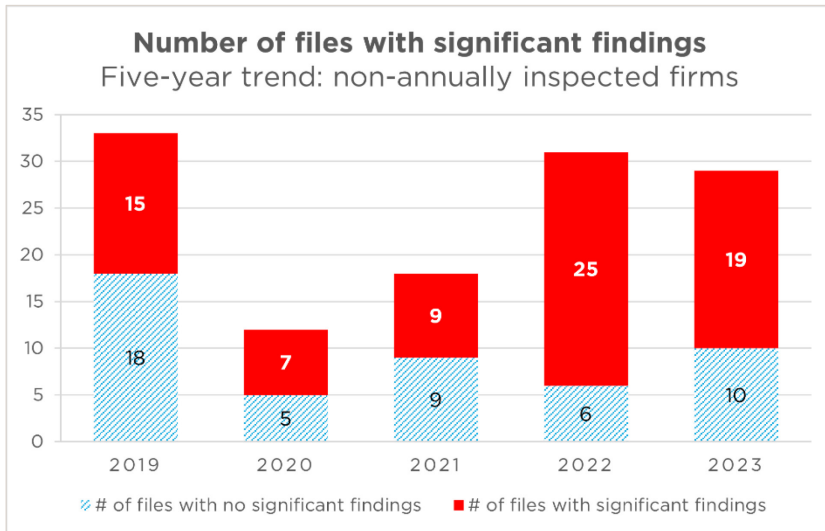


Figure 21

The number of files inspected each year for non-annually inspected firms is aligned with our risk-based methodology. The number of files inspected depends on the number of bi-annual firm inspections (firms that audit more than 50 reporting issuers), the number of file inspections of issuers operating in higher-risk industries, and the number of re-inspections of audit firms where concerns had been identified in previous inspections. In 2020, the pandemic caused us to initially delay some inspections as we adjusted to a remote working environment. As a result, we deferred inspections of smaller non-annually inspected firms to early 2021. We also increased the number of files inspected at foreign firms in 2023 due to the high level of findings observed at these firms in 2022 and the increased number of reporting issuers audited by these firms in 2023.

The nature of the findings at these firms are consistent with the common themes in inspection findings discussed on page 10. Factors that contributed to the higher prevalence of significant findings at some of these firms included lack of experience auditing in a particular industry or audit area and insufficient supervision and review.

Figure 22 shows the number of files inspected and the number of significant findings at the non-annually inspected firms in the specified industries in 2023 and 2022. Thirteen of the 19 files with significant findings identified among non-annually inspected firms in 2023 were in reporting issuers operating in the technology, crypto and cannabis industries. By comparison, in 2022, 20 of the 25 files with significant findings were in the technology, crypto, cannabis and psychedelics industries.





Industry	2023		2022	
	Files inspected	Significant findings	Files inspected	Significant findings
Technology	6	4	9	5
Crypto	7	5	7	7
Cannabis	7	4	5	5
Psychedelics	0	0	3	3
Industrial goods and services	3	2	0	0
Financial services	1	1	1	1
Mining	3	1	3	2
Consumer products	1	1	0	0
Life sciences	1	1	0	0
Oil and gas	0	0	1	1
Entertainment	0	0	1	1
Healthcare	0	0	1	0
<b>Total</b>	<b>29</b>	<b>19</b>	<b>31</b>	<b>25</b>

Figure 22

The level of inspection findings at the non-annually inspected firms is unacceptably high. In 2023, we imposed new enforcement actions on six firms, while four others continued to operate under enforcement actions imposed in previous years. Actions were removed from one firm based on a significant improvement in inspection results. Decisions will be made in 2024 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2023 enforcement actions are outlined in the **Enforcement overview** section on page 29 of this report.



# Looking forward

## Technology



Over the past few years, we have seen significant advancements in the development of emerging technologies around the world. These developments include an increase in the general availability of applications which incorporate artificial intelligence, many of which could be used by auditors and management of Canadian reporting issuers. In addition, many audit firms are focusing on updating their audit platforms and introducing other automated tools and techniques (ATTs) into their audit methodology.

The continued use and evolution of technology in audits presents both opportunities and challenges that could impact audit quality.

Auditors may be able to leverage new technologies to improve their understanding of the business and operations of reporting issuers, identification of fraud and automation of routine procedures to allow auditors to focus on more complex transactions with higher audit risk.

However, audit firms must remain alert to the risks that advancements in technology can introduce. These may include: increasing complexity of audits; challenges for audit teams to understand and explain how technology works and to assess whether the conclusions reached or output provided by the technology is reliable; and over-reliance on tools with less professional skepticism applied.

CPAB encourages audit firms to implement and/or enhance processes to comprehensively monitor the deployment of new technologies and evaluate their impacts on audit quality, to build appropriate safeguards into the use of emerging technologies to ensure the integrity of the audit process, and to proactively develop and evaluate approaches to mitigate risks arising from the increasing use of technology.

In 2024, CPAB will increase our focus on the impact of emerging technologies, including artificial intelligence, on audit quality. Our work in this area will continue to integrate our findings from our oversight of audit firms that audit Canadian reporting issuers together with our collaboration with other regulators in Canada and with audit regulators internationally through our leadership in the International Forum of Independent Audit Regulators (IFIAR)'s Technology Task Force.



## Climate thematic review



2023 is the second year that CPAB has performed a climate thematic review, focused on deepening our understanding of how auditors evaluate the impact of climate-related risks in their financial statement audits. Our ongoing work in this area informs our understanding of how climate matters are currently captured within audit activity and how prepared audit firms are to address climate-related risks that may impact financial statements.

Our 2023 thematic review found that audit firms can do more to prepare their teams to consider and address climate-related risks in their audits.

While an increasing number of engagement teams consider climate-related factors during their risk assessment activities, the quality and depth of risk assessment activities varies significantly between files and firms. Engagement teams also do not consistently discuss climate-related risks with management or those charged with governance as part of their risk assessment activities.

Firms should continue to prepare their teams to engage in these discussions to better inform their risk assessment activities and adapt their audit approach where necessary.

Examples of how audit firms have considered climate related risks include:

- Requiring all engagement teams to assess and document the audit risks related to climate change. For some firms, this is accomplished through a risk assessment template that all audit teams must complete.
- Training and educating all audit professionals on audit risks related to climate change.
- Increasing the number of climate specialists within the firm and providing audit teams with access to these specialists.
- Conducting real-time quality assurance reviews that include a focus on how audit teams have assessed the audit risks related to climate change.
- Providing training and resources to audit teams to prepare for and engage in discussions with management and those charged with governance on this topic.
- Identifying reporting issuer audits that are more likely to be impacted by climate-related risks in the nearer term and providing additional support (including professional practice and climate specialists) to those audit teams to ensure they can fully assess and understand potential climate-related risks and their impacts on the financial statement audits.



## Fraud and going concern



Fraud and going concern continue to be important challenges for both domestic and global capital markets and require a renewed focus and effort from all stakeholders in the financial reporting system. CPAB has continued to shine a light on these important topics including the auditor's role in prevention and detection of fraud and in evaluating going concern disclosures.

In 2023, CPAB hosted our fifth Audit Quality Symposium focused on the evolving fraud landscape.

Important takeaways from this event include:

- Auditors need to ensure that their fraud risk assessments consider the specific fraud risks the company will face and should identify opportunities to leverage the use of technology.
- Board members should have in-depth conversations with both the external auditors and management regarding the risk of fraud and stay alert to near misses. Even if they are immaterial, small fraudulent events can expose broader risks that should be investigated.
- Management should continue to increase efforts to be aware of what is happening across their organization.

CPAB's [publication on the symposium](#) provides more information on best practices for auditors and board members and key concepts that management should keep in mind to help minimize the risk of fraud.

Through our fraud thematic review, we noted a positive trend in most areas where we had previously identified auditors could improve on procedures performed and adopt good practices.

In addition, CPAB will continue to engage with standard-setters regarding upcoming revisions to international auditing standards in relation to fraud and going concern. In 2023, CPAB was an active contributor to IFIAR's response to the International Auditing and Assurance Standards Board (IAASB)'s proposed amendments to the going concern auditing standard. While we wait for the IAASB's new standards on fraud and going concern, we continue to encourage firms to adopt best practices with respect to their fraud and going concern risk assessments and the related procedures designed to respond to identified risks.



## Enforcement overview

Enforcement actions are an integral part of CPAB's regulatory intervention. CPAB takes enforcement actions when necessary to prevent and deter violations of professional and ethical standards. Enforcement actions have increasingly been imposed to improve audit quality with the goal of protecting the investing public. Our focus is on ensuring the implementation of adequate remedial measures to address significant audit quality concerns.

In 2023, CPAB began publicly disclosing significant enforcement actions that resulted from poor inspection findings. Significant enforcement actions include a restriction on a firm's continuance as auditor for certain reporting issuer clients, restriction from accepting reporting issuer clients, prohibition on the assignment of specified professional(s) on audit engagements, and termination of a firm's registration with CPAB.

Summaries are posted on CPAB's website in relation to seven firms that are the subject of significant enforcement actions emanating from inspections findings. [These publications can be found on our website](#) and will remain available for a period of four years following the termination of the significant enforcement actions.

In addition to serving as a deterrent, the goal of these publications is to further reinforce public confidence in Canada's capital markets and provide information that supports audit committees and investors in their roles.

## Enforcement actions

In 2023, there were 17 firms subject to enforcement actions, compared to 13 in 2022. The increase is due in part to the concerning rise in the number of significant findings identified at non-annually inspected firms, where the number of firms subject to enforcement actions has more than doubled.

Figure 23 identifies the requirements, restrictions and sanctions imposed or in effect in 2023 compared to 2022.

While a restriction on accepting new reporting issuer engagements may relate to a firm's overall practice, there are also instances in which firms have been restricted from accepting reporting issuers that are defined as moderate or high risk. CPAB imposes these types of restrictions when we believe there is a risk to the investing public.

In addition to a restriction, CPAB also routinely imposes a variety of enforcement actions in the form of requirements, listed in Figure 23, which are intended to help the firm improve and maintain audit quality.

Recovery of enforcement compliance monitoring costs is a standard aspect of all enforcement actions.


**Enforcement actions imposed  
or in force by year**

		Four largest firms		Other annually inspected firms		Non-annually inspected firms	
		Imposed or in effect in 2023	Imposed or in effect in 2022 <sup>(a)</sup>	Imposed or in effect in 2023	Imposed and in effect in 2022	Imposed or in effect in 2023 <sup>(c)</sup>	Imposed or in effect in 2022
Sanctions	Termination	-	-	-	-	1	-
	Public censure	-	1	3	-	5	-
Restrictions	Restricted from taking on new elevated or high risk reporting issuers	-	-	1	3	1	1
	Restricted from taking on new moderate and high risk reporting issuers	-	-	1	-	2	-
	Restricted from taking on new reporting issuers	-	-	1	2 <sup>(b)</sup>	4	3
	Restriction on the continuance of certain reporting issuer clients	-	-	-	-	1	-
	Prohibited from assigning certain firm personnel to reporting issuer clients	-	-	-	-	1	-
Requirements	Enhanced reporting to CPAB	-	2	6	6	3	-
	Additional training and/or coaching	-	-	2	6	6	4
	Enhanced engagement quality control review	-	-	-	1	3	3
	Mandated firm client portfolio review	-	-	-	6	3	-
	Mandated partner and manager portfolio review	-	-	2	6	1	-
	Appointment of an independent monitor	-	1	4	3	1	-
	Enhanced disclosure of CPAB inspection findings and recommendations to partners within the firm	-	1	2	2	-	-
	External professional to review the firm's system of quality control and/or completed audit engagements	-	-	3	3	1	2
	Cultural survey (perform or implement recommendations)	-	-	3	3	-	-
	Provide engagement findings reports to audit committees	-	-	-	-	3	2
	Implement a budgeting and resource management tool	-	-	2	3	1	-
	Design, implement and test internal controls for engagement budgeting and resource scheduling tools	-	-	4	-	-	-
	Prepare a budget and project plan to support the implementation of systems of quality management	-	-	-	3	-	-
	Other (including completing inflight reviews, revising policies)	-	2	8	9	16	4
<b>Number firms subject to enforcement actions</b>		<b>-</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>11</b>	<b>5</b>

Figure 23

- (a) All restrictions and requirements were terminated by December 2022.
- (b) The restriction on one firm was terminated by December 2022.
- (c) Restrictions and requirements were terminated on one firm in February 2023, and one requirement was satisfied on each of two other firms during the year.



## Investigations

In 2023, CPAB commenced four new investigations, the results of which will be published should each investigation identify a violation event that results in the imposition of enforcement actions. CPAB closed one investigation, which resulted in the termination of a non-annually inspected firm's status as a participating audit firm and therefore terminated its ability to conduct public company audits. The [results of this investigation](#) are available on our website. Two investigations that began in 2022 are ongoing.



## CPAB's regulatory intervention process

CPAB expects firms to resolve audit quality issues as they arise during an inspection. CPAB's Rules provide a framework of regulatory intervention mechanisms to address audit quality deficiencies at the file and firm levels.

Throughout the inspection process, both the engagement team and audit firm are given the opportunity to provide their perspectives and written responses in relation to the facts, findings and recommendations arising from the inspection. Once the inspection has concluded, to protect the investing public and promote audit quality, unresolved matters may be escalated to regulatory intervention. This can include enforcement actions or the commencement of an investigation.

CPAB commences an investigation when we consider that a *violation event* may have occurred, and we wish to seek additional information. A violation event includes conduct that breaches CPAB's Rules or standards of professional conduct for the audit profession and may have an impact on the provision of audit services. This includes a failure to comply with enforcement actions imposed on a firm. An investigation can be triggered by information received from a variety of sources including whistleblower reports, other regulators, CPAB inspections and internal risk monitoring.

## Enforcement

CPAB initiates the escalation of regulatory intervention following an inspection or investigation by proposing the imposition of enforcement actions including requirements, restrictions or sanctions. Informal enforcement actions such as undertakings may also be used in a measured effort to address less serious concerns and to attain timely corrective action from a firm. All regulatory intervention is designed to protect the investing public and encourage sustained improvements to audit quality.

*Requirements* typically involve CPAB mandating that the firm implement targeted actions or change certain practices to improve audit quality, such as conducting a culture assessment, providing additional training or retaining an independent monitor to oversee compliance with any imposed enforcement actions and other audit quality related firm initiatives.

*Restrictions* typically involve CPAB limiting the audit firm's practice. This could include restricting the firm from taking on new reporting issuer clients, high risk reporting issuer clients or reporting issuer clients in particular industries.

*Sanctions* include, but are not limited to, a public censure and termination of a firm's status as a participating audit firm.

The initial decision to propose the imposition of enforcement actions is determined by CPAB's Enforcement Screening Panel, composed of senior members of the CPAB leadership team. The panel reviews each matter and formulates a recommendation that is brought to CPAB's board for approval.

If the board decides to propose one or more enforcement action, formal notice is provided to the firm. The firm can challenge the proposed enforcement action(s) by petitioning for a review proceeding. If the firm does not petition for a review proceeding, the enforcement action(s) will come into effect and immediate compliance is required. In 2023, there were no such challenges to enforcement actions proposed and ultimately imposed by CPAB.





## External outreach – expanding the conversation about audit quality matters

CPAB’s external stakeholders include public company audit committees and directors, investors, other regulators and audit firms.

CPAB’s external outreach strategy has these primary objectives, which are informed by our vision and mission.

1. Inform and influence key stakeholders in the interest of promoting audit quality and protecting the investing public.
2. Enhance CPAB’s identification and understanding of emerging risks.

CPAB engages with stakeholders through one-to-one outreach, audit committee forums, audit quality symposiums and audit quality roundtables, as well as through presentations at conferences and other events. CPAB also sends information to members of the public via CPAB’s subscription-based newsletters and bulletins, our website and LinkedIn.

We continued our outreach to a broad range of stakeholders, including corporate directors, reporting issuer management, investors, regulators, and standard-setters. Key topics covered included environmental, social and governance reporting; the impact of emerging technologies such as artificial intelligence; cybersecurity; managing through economic and geopolitical uncertainty; sufficiency of accounting professionals at audit firms and reporting issuers; and audit firm culture.

### 2023 Audit Quality Symposium – the evolving fraud landscape

CPAB’s Audit Quality Symposium in September 2023 brought together more than 120 stakeholders. This event provided an excellent opportunity to reinforce the importance of the combined efforts of all stakeholders to address important issues impacting investor confidence and audit quality. A summary of the discussion can be found on our website: [Canadian Public Accountability Board Symposium: the evolving fraud landscape](#).

### Hearing from investors

We continued to engage with investors, including interaction with investor advocates and institutional investors. Our primary engagement with investors was focused on two areas, including:

- Dialogue with risk professionals within many of Canada’s largest institutional investors to discuss emerging risks impacting audit quality and confidence in financial reporting.
- Obtaining input from investor advocates and institutional investors on proposed changes to CPAB’s regulatory disclosures.

## Connecting with audit committees

We continued to build on our engagement with audit committees of Canadian reporting issuers. The focus during the year was to strengthen existing connections and build new relationships with the audit committee chairs of many of Canada's largest reporting issuers. We also renewed our focus on outreach to audit committee chairs and members of small and mid-sized reporting issuers, reflecting the varied nature of Canada's capital markets.

Outreach included:

- Our annual series of audit committee forums.
  - We held eight forums including all-industries forums and forums focused on the mining, energy, real estate, and financial services industries. We launched a new forum focused on small to mid-sized reporting issuers. A total of 135 participants attended these forums in Vancouver, Calgary, Toronto and Montreal.
  - During these forums, in addition to roundtable discussions, we provided updates on our strategic priorities, raised topics relevant to audit quality and shared upcoming changes to CPAB's regulatory disclosures.
- One-on-one meetings with audit committee chairs.
- Hosting and participating in events and conferences targeted to corporate directors.



Figure 24



## Broadening our reach

In 2023, we had the opportunity to discuss our perspectives and have a dialogue with a broad range of Canadian and international stakeholders through in-person and virtual conferences and meetings.

Examples include:

- Co-hosting the annual roundtable on audit quality with the Office of the Superintendent of Financial Institutions (OSFI) and Canadian Securities Administrators (CSAs) including senior representatives from standard-setters, professional bodies and audit firms.
- Presenting at conferences for audit committees, business valuers, fraud examiners, audit firms, students and academics.
- Meetings with other regulators in Canada and internationally, including audit regulators, securities commissions and provincial regulators.
- Active involvement as members of the Auditing and Assurance Standards Oversight Council and the Independent Review Committee on Standard Setting in Canada.
- Discussing our perspectives and inspection findings with Canadian and international standard-setters.
- Meeting with business and accounting students at Canadian universities.
- Providing our perspectives to standard-setters in Canada and internationally including preparation of six response letters on topics including agenda priorities and work plans, going concern and general requirements on sustainability assurance engagements.

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