



Canada’s audit regulator releases annual public report on Big Four accounting firm inspections

CPAB working with the four largest firms to address inconsistent audit quality, particularly in companies with small to mid-sized market capitalizations

TORONTO, November 30, 2015 – In its public report on the 2015 inspections of Canada’s four largest accounting firms (the Big Four — Deloitte LLP, EY LLP, KPMG LLP, PwC LLP) released today, the Canadian Public Accountability Board (CPAB) said its findings indicate that audit quality across the four firms was inconsistent. The 2015 report notes that, while action plans have generally helped to maintain audit quality in larger engagements, improvement in the firms’ quality systems is required.

In 2015, CPAB shifted the focus of its inspections from larger reporting issuer audits to engagement files of companies with mid to smaller market capitalizations and located in smaller markets to determine if the benefits of those action plans were cascading through the four firms:

- 48 or 51.6 per cent of files inspected by CPAB in 2015 were for companies with market capitalizations of \$250 million or less; that is compared to 27 or 27.5 per cent in 2014.
- CPAB inspected a total of 93 engagement files in 2015 and identified significant inspection findings in 24 of those files; in 2014, CPAB inspected a total of 98 engagement files and identified significant inspection findings in seven of those files.
- Of the 24 (2014: 7) engagement files with significant findings, 14 (2014: 1) were in files for companies with market capitalizations of \$250 million or less out of a sample of 48 files (2014: 27).
- Results for two of the firms were comparable to 2014, and two experienced challenges, one particularly with audits of companies with smaller market capitalizations and one more broadly.

“With some exceptions, this year’s findings tell us that firm action plans are making a difference and that audit quality is being maintained at larger reporting issuers,” said Brian Hunt, CEO, CPAB. “However, our inspections of smaller reporting issuer audit files show a different result. We are now working with all firms to ensure the quality improvements we’ve seen over the past two years are applied effectively, regardless of the size of the issuer or the size of the market.”

Specifically, CPAB has required the firms to:

- For those files not yet remediated, complete planned procedures to ensure no restatements are required (no restatements have been identified to date).

- Improve the effectiveness of their systems of quality control for medium and smaller market cap companies.
- Consider region-specific issues that may be impacting audit quality.
- Evaluate the underlying cause(s) of individual file significant findings.
- Conduct a comprehensive review of quality control systems and assess whether those systems have inherent weaknesses that result in inconsistent audit execution at the engagement file level.
- Amend training and learning curriculum as necessary to address inspection findings and key insights.
- Determine appropriate next steps, including revising and amending action plans as necessary, to continue to drive consistency and improve audit quality across all engagements.

CPAB will monitor the implementation, sustainability and effectiveness of these initiatives at each firm and continue to conduct risk-based inspections with a particular focus on mid to smaller market cap reporting issuers in 2016. CPAB will also conduct a deeper examination of firm quality control systems in order to assess and identify key controls and procedures that should enhance consistent audit execution.

As per the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol) all four firms share significant inspection findings and CPAB's public reports with their clients' audit committees. CPAB strongly encourages audit committees to discuss the public report and any file-specific findings, if applicable, with their auditor.

CPAB's 2015 Public Report on Big Four firm inspections is available at www.cpab-ccrc.ca.

About CPAB

The Canadian Public Accountability Board (CPAB) is Canada's audit regulator responsible for the regulation of public accounting firms that audit Canadian reporting issuers. CPAB operates independently from the provincial regulatory authorities who oversee the accounting profession. A world-class audit regulator, CPAB contributes to public confidence in the integrity of financial reporting, which supports Canada's capital markets. CPAB operates from offices in Montréal, Toronto and Vancouver.

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