



Canada's audit regulator reports overall inconsistency in quality of public company audits in 2015

CPAB working with Canada's audit firms to address inconsistent audit quality, particularly in companies with small to mid-sized market capitalizations

TORONTO, March 31, 2016 – In its report released today on the public accounting firms inspected in 2015, the Canadian Public Accountability Board (CPAB) said its findings indicate that, overall, audit quality across firms was inconsistent. In particular, the report notes that inspections at nine of the 14 public accounting firms reviewed annually (those with 100 or more reporting issuers) resulted in more significant inspection findings compared to the previous year and that, while firm action plans have generally helped to maintain audit quality in larger engagements, improvement in the firms' quality systems is required.

- In 2015, CPAB inspected 144 (158 in 2014) annual firm files and identified significant findings in 43 of those files (28 in 2014).
- Overall, CPAB's Big Four (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP) inspection findings were consistent with findings in the other 10 firms inspected annually.
- Key recurring inspection themes included executing audit fundamentals, understanding business processes, complex accounting estimates, internal controls, professional judgment and skepticism, and identification of accounting issues.

"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."

As a result of this year's findings, CPAB has required firms to proactively determine the root causes of its significant inspection findings and implement corrective action plans with both short and long term initiatives including additional training, revisions to firm policies and processes, and realignment of resources to better match reporting issuer risks and ensure the industry expertise required to deliver a quality audit. Depending on the particular firm and specific circumstances, CPAB has also required firms to:

- Improve the effectiveness of their quality control systems 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 carry out a deeper examination of firm quality control systems to assess and identify key controls and procedures that should enhance consistent audit execution.

In addition, CPAB's report notes that audits in foreign jurisdictions remain an area of concern. "While we have finalized memoranda of understanding in a number of foreign jurisdictions, we still experience limitations in accessing component audit work in certain others," said Hunt. "This effectively results in a scope limitation: if access had occurred, additional inspections findings may have been identified. We continue to engage with the relevant Canadian securities regulators to make the changes necessary to assist CPAB in obtaining access in order to fulfill our mandate of regulating participating firms."

Each firm participating in the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol) shares their file-specific significant findings, and this report, 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 annual inspections report and 2015 Big Four inspections report are 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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