



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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

Significant inspection findings lower in 2017; CPAB views longer term consistency through a quality management systems lens

TORONTO, March 27, 2018 – In its annual public inspections report released today, the Canadian Public Accountability Board (CPAB) reported that, despite an overall decrease in significant inspection findings in 2017 compared to the previous year, there is continued inconsistency in certain aspects of audit quality. The CPAB report examines audit quality at Canada’s 14 largest public accounting firms whose clients include 100 or more reporting issuers.

In 2017, CPAB inspected 128 annual firm files (compared to 135 in 2016) and identified significant findings in 15 of those files (compared to 24 in 2016). There were three restatements. Overall, inspection themes in the 10 other firms inspected annually were similar to those in the inspections of the Big Four firms (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP). Specifically, these inspection themes were related to the execution of audit fundamentals, professional judgment and skepticism, and significant accounting estimates.

“Based on the 2017 inspections, we can confirm that Canada’s public accounting firms have sound audit methodologies in place and, in most cases, we are seeing compliant execution,” said Jane Williamson, Vice President, Inspections, CPAB. “However, we are also seeing recurring inspection findings that highlight areas for improvement in audit quality. We believe these improvements can be realized through more robust and effective quality management processes, and embedding quality along the full audit cycle, not just assessing it at the end through internal and external inspections.”

“CPAB’s purpose is to enhance audit quality by working with audit firms to encourage consistency of quality audit execution,” said Carol Paradine, CPAB CEO. “Our risk-based inspections identify good practices and impediments to ongoing quality improvements – both are core to our discussions with audit firms, audit committees, management and investors.

“In 2018 we will evolve our inspections strategy to incorporate additional reviews of firm quality management systems, beginning with the larger firms,” said Paradine. “We expect to apply the new model to the 10 other annually inspected firms in 2019 or beyond.”

The report also noted progress on CPAB’s pilot project with audit firms, management and audit committees on the use and benefit of audit quality indicators (AQIs) as quantitative measures of the audit process.

“AQIs complement our evolving inspection strategy and should positively impact audit quality. We encourage audit committees, management and audit firms to continue to explore how AQIs can be integrated into their audit processes,” said Paradine.

As reported last year, CPAB has proposed a regulatory way forward to the relevant Canadian securities authorities for CPAB to access information and related audit working papers in foreign jurisdictions. The Canadian Securities Administrators (CSA) have issued a consultation paper and are currently reviewing the responses to determine next steps – CPAB continues to look forward to CSA’s proposals on this issue.

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 2017 annual inspections report 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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