

## CPAB Audit Committee Forum Highlights

**CPAB held audit committee roundtables on May 29, 2019 in Toronto and June 18, 2019 in Montreal for audit committee chairs and CFOs of Canadian public companies.**

Moderated in Toronto by **Kathleen O’Neill**, audit committee chair of ARC Resources Ltd. and the Ontario Teachers’ Pension Plan, and in Montreal by **Jocelyn Proteau**, audit committee chair of Quincallerie Richelieu and former Vice Chair of CPAB’s board, the forums featured roundtable discussions about matters that are top of mind for audit committees and management of Canadian reporting issuers.

## Issues facing audit committees of Canadian reporting issuers

### Emerging technology for auditors

The use of technology is changing how audits are being performed, including the increasing use of automation and data analytics. This creates new opportunities and challenges to audit committees. As advanced analytics and automation are rapidly being leveraged on a global scale, they create potential risks for both the reporting issuer and the auditor. Participants discussed creating measurement targets around this new technology, citing assessment targeting and Audit Quality Indicators (AQIs) as potential solutions. In addition, as reporting issuers are sharing more and more data with the auditors, there is a joint responsibility to ensure the appropriate safeguarding of information placing increased importance on the quality of cybersecurity protection at the audit firms.

Increased complexity and developments in technology also means new and diversified skillsets are required to perform audit work. Participants consistently recognized the importance of ensuring management, auditors and board members have or are being trained to develop the right skills and competencies to succeed.

CPAB is keeping an eye on emerging technologies, including data analytics. We recently published our perspectives on the impact of [data analytics on audit quality](#). We encourage audit committees to continue to proactively manage technology and cybersecurity responsibilities and to have open and regular discussions with their auditors moving forward.

### Cybersecurity protection for reporting issuers

Cybersecurity remains a high priority risk for most reporting issuers. Oversight responsibility for cybersecurity ranges from delegation to the audit committee or risk committee to the responsibility being held by the entire board. To help mitigate cybersecurity risk, participants shared a range of best practices, which included monthly and annual cybersecurity reports being provided to the audit committee chair, and the use of outside experts to conduct annual assessments and share global trends.

## Expanded auditors report

Starting in 2019 auditors of large US registrants (including many large Canadian reporting issuers that are dual listed) will be required to include a discussion of critical audit matters in their audit reports. Reporting of key audit matters for TSX listed reporting issuers will begin in 2020.

In preparation for the expanded report, auditors have been discussing mock ups of potential audit reports and performing dry runs of expanded auditor reporting to help anticipate potential issues with this new reporting. All participants agreed that proactively carrying out this work was critical and advised avoiding brief, boilerplate reporting.

## Auditor assessments and Audit Quality Indicators

Audit Quality Indicators are quantitative measurement tools to help audit committees measure and evaluate audit quality. Participants found AQI use helpful in improving the quality and depth of discussions with their auditor. Regular AQI reporting has helped audit committees have varied discussions throughout the year, leading to proactively solving challenging issues earlier on.

When assessing the auditor, participants agreed that while best practices for conducting these reviews are varied, ensuring that the audit committee plays a main role in driving the assessment process is critical. Quarterly reporting and key stakeholder feedback questionnaires were some examples of how participants stay engaged throughout the year and create more frequent opportunities to assess the auditor.

Participants also noted that with an increasing desire for transparency by shareholders, more reporting issuers are including disclosure in their public filings about their assessment methods and use of tools like audit quality indicators to provide a better glimpse into audit committee roles and responsibilities.

We encourage audit committees, management and audit firms to continue to explore how auditor assessment tools and audit quality indicators can be integrated into their audit processes and how they can publicly disclose their use. To learn more, CPAB has released publications outlining the benefits of [comprehensive reviews](#) and [AQIs](#).

## Transparency of CPAB's inspection findings

Participants held an engaging discussion about the transparency of CPAB's inspection findings. CPAB's Quality Management Systems (QMS) assessments currently underway at Canada's four largest audit firms may provide additional avenues for public disclosure of the strength of the quality systems at each audit firm that audit committees depend on to drive consistent audit quality. CPAB will continue to consider the views of our stakeholders in determining the way forward in this area.

## Developments in audit quality

### Quality Management Systems assessments

Increased focus on centralized quality control systems at the firm level is important to improve the consistency of audit quality. While most audits we inspect comply with the required standards, recurring file inspection themes indicate that weaknesses in quality management systems persist, leading to inconsistent audit execution. Firm policies and processes – at both the leadership and engagement team levels – that manage risk and get the right people working on the right things at the right time are essential to delivering high quality audits, consistently.

In 2018, CPAB implemented a new methodology to assess existing audit quality management systems to help accelerate improvements. When evaluating firm processes, CPAB expects the firm to demonstrate and evidence the effectiveness of the underlying processes supporting these criteria. Participants discussed their experiences with certain quality management system criteria, such as firm resource management, as areas they were interested in exploring with a direct link to audit quality results.

CPAB expects to report additional findings from the review of these quality systems of the Big Four firms later in 2019.

### Global developments and regulatory landscape

In today's global audit community, there is no shortage of examples where audit quality has been questioned. As companies continue to grow and expand internationally, this poses additional risks from a governance perspective. Participants recognized the influence of the global regulatory landscape on the Canadian market and recognized that we cannot be complacent.

Discussions are continuing in some jurisdictions, such as the UK, around recommendations that can improve audit quality including steps to increase competition for large audits and reduce the potential for conflicts of interest. Some of the major recommendations being considered include mandatory joint audits of listed companies and the functional or operational separation of the audit and non-audit businesses of the large audit firms. While global audit firms continue to explore these recommendations, all agree that implementing internal controls at the firm level and a greater focus on quality processes and systems and the entire audit ecosystem (auditors, audit committees and management) is required. Participants discussed the practical challenges and benefits to increasing competition and the impact on audit quality in the context of their role as audit committee chairs. Several audit committee chairs also shared their concern about certain audit committees who are seeking significant fee reductions from their auditors. All audit committee chairs indicated an interest in focusing on audit quality and ensuring audit fees were fair and stressed the negative impact of seeing the audit as an expense to be reduced rather than an important service for shareholders.

CPAB is actively considering these global developments and where change is needed to continue to protect Canada's capital markets.

In this context, CPAB is examining current practices related to auditor responsibilities for fraud and going concern. In 2019, we aim to identify and consider best practices in Canada and globally and provide our perspective on how changes can be made to improve audit quality.

## Thank you

CPAB thanks everyone for their participation. We encourage ongoing dialogue and look forward to continuing the audit quality discussion at future events across Canada.

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## Have a view?

CPAB would appreciate hearing from you. Please reach out to us at [stakeholderengagement@cpab-ccrc.ca](mailto:stakeholderengagement@cpab-ccrc.ca).

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[www.cpab-ccrc.ca](http://www.cpab-ccrc.ca) / Email: [info@cpab-ccrc.ca](mailto:info@cpab-ccrc.ca)

