



**PROTOCOL  
FOR AUDIT FIRM  
COMMUNICATION  
OF CPAB INSPECTION FINDINGS  
WITH AUDIT COMMITTEES**

**RESULTS OF CONSULTATION**

**March 2014**

## Background

1. CPAB was established in 2003 as Canada's independent audit regulator. CPAB's mission is to contribute to public confidence in the integrity of financial reporting of reporting issuers (RIs) in Canada by effective regulation and promoting quality, independent auditing. CPAB carries out its mission primarily by conducting inspections of the audit firms over which it has oversight responsibility.
2. The essence of CPAB's work involves assessing the execution of methodologies, policies and quality control processes of the audit firms that participate in its oversight program. The primary focus of CPAB's inspections is on the quality of the audit work as evidenced in the audit firm's audit files. Following each inspection of a firm, CPAB issues a private report to the firm containing findings on their quality control processes and individual file reviews, and includes recommendations to improve audit quality which must be implemented within a specified time period.
3. Annually CPAB publishes its Public Report on the quality of audits conducted by public accounting firms (Public Report). This Public Report provides a summary of firm level inspection themes, recurring issues, trends and emerging issues. Findings are described without identifying the audit firms or RIs whose audit files gave rise to the findings. CPAB also publishes periodic newsletters for audit committees. This information raises awareness of audit quality issues and should facilitate dialogue on audit quality issues among CPAB, audit committees and auditors, promoting a culture of continuous improvement.
4. Audit committees of RIs in Canada have been requesting greater transparency into CPAB's inspection findings to support them in their role of overseeing and evaluating the external auditor. A key recommendation of the audit committee working group of the Enhancing Audit Quality<sup>1</sup> initiative was that CPAB and the audit firms develop a protocol to increase the inspection information available to audit committees.
5. In 2013 CPAB consulted with key stakeholders including corporate directors, audit firms, securities regulators and legal advisors to develop a draft **Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol)**.
6. In November 2013 CPAB published a Consultation Paper with the objective to obtain feedback on the draft Protocol. The consultation process has concluded and CPAB has considered the comments received and the planned impact on the Protocol is outlined in this paper. A final draft Protocol is attached as Appendix C to this summary. The final

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<sup>1</sup> The EAQ initiative was a collaboration between the Chartered Professional Accountants Canada (CPA Canada) and the Canadian Public Accountability Board (CPAB) to examine how to enhance audit quality in light of various global developments. Further information about the initiative can be found at <http://www.cica.ca/enhancing-audit-quality-canadian-perspective/item64401.aspx>

Protocol and an accompanying Q&A will be published upon receipt of final approvals.

### Parties responding to the Consultation

7. 20 non-confidential responses were received and are published on CPAB’s website (<http://www.cpab-ccrc.ca/en/topics/CPABProtocol/Pages/default.aspx> ). Table 1 shows respondents by stakeholder.

| <b>Table 1</b>                    |    |
|-----------------------------------|----|
| Audit Firm – National             | 5  |
| Audit Firm – Regional / Local     | 8  |
| Director / Audit Committee Member | 1  |
| Reporting Issuer / Management     | 1  |
| Regulator                         | 1  |
| Stock exchange                    | 1  |
| Other                             | 3  |
| Total                             | 20 |

See Appendix A for a list of parties that responded to the Protocol.

8. As part of the consultation process two webcasts were held, one targeted to audit firms (116 logins) and the second targeted to corporate directors hosted by the Institute of Corporate Directors (ICD) with 332 logins. Archived copies of the audit firm and ICD webcasts have been posted on the CPAB and ICD websites respectively.
9. In addition, a survey was sent to those individuals that registered for the webcast for corporate directors hosted by the ICD (the results of the survey are included in Appendix B).
10. As part of its outreach, CPAB also discussed the Protocol with an Advisory Group of experienced corporate directors from across Canada, organized by the Institute of Corporate Directors (ICD Advisory Group). This Advisory Group provided valuable input to CPAB on the issues that are discussed in this summary.
11. Our consultation process also included providing updates and obtaining feedback from other key stakeholders including members of the Canadian Securities Administrators. Input from all stakeholders was considered in developing the final draft Protocol.

## Overview of Responses and Survey Results

12. Responses to the survey sent after the ICD webcast were supportive of the Protocol. Seventy-six responses were received to this survey with the following results (see Appendix B for more details):
- 70 per cent answered “maybe” and 17 per cent answered “definitely” to whether CPAB’s Public Report would provide enough information to have a meaningful discussion on audit quality.
  - 55 per cent answered “definitely” and 40 per cent answered “maybe” to whether the reporting of RI file specific findings would help audit committees engage in a meaningful dialogue on the quality of the audit.
  - 87 per cent answered “definitely” and 11 per cent answered “maybe” to whether their audit committee had members with sufficient knowledge and experience to engage in a meaningful discussion of CPAB’s inspection findings.
  - 53 per cent answered “definitely” and 46 per cent answered “maybe” to the question whether the Protocol will enable the audit committee to more effectively oversee the auditor.
13. Overall, responses to the Consultation Paper were supportive. Specifically, audit firms that audit approximately 98 per cent of Canadian reporting issuers by market capitalization of reporting issuers active in the Canadian capital markets have indicated their support for the Protocol.
- However, certain audit firms expressed some concerns, specifically on the applicability of the Protocol to smaller reporting issuers and venture issuers.
14. The principal areas of comment included:
- A. Impact of the sharing of inspection information and rollout of the Protocol
  - B. Cost vs. Benefit
  - C. Confidentiality of RI file-specific inspection findings
  - D. Voluntary nature of the Protocol
  - E. Timing of reporting to audit committees
  - F. Firm-wide inspection findings

A summary of these comments is outlined below together with the planned impact on the Protocol.

**(A) Impact of sharing the information proposed by the Protocol and rollout of the Protocol**

15. Respondents to the Consultation Paper provided a range of perspectives on whether the information provided by the Protocol would assist audit committees in their oversight of the auditor and improve audit quality. Specific comments included:
- Support from the National Audit Firms, audit committee members, other regulators and from the survey following the ICD webcast that the information will be useful to audit committees.
  - Concerns were raised by certain audit firms as to whether the information will benefit the audit committees of smaller reporting issuers, specifically issuers listed on the TSX Venture Exchange. These parties have noted that the audit committees of smaller issuers may not have members with a background in auditing, specifically for issuers that do not have members with financial expertise. It was noted these audit committees may need additional background on the audit process and CPAB's inspections to allow them to effectively respond to the issues to be communicated under this Protocol.
16. To respond to the concern about audit committee readiness, CPAB, CPA Canada and the ICD will implement a comprehensive roll out plan for audit committees to educate directors on the Protocol (including directors of smaller reporting issuers). This roll out plan will include a number of webcasts and in person discussion groups with the objective to provide practical discussion of the audit process and information to be shared under the Protocol.

**Planned impact on Protocol:**

No changes to the final Protocol are proposed as audit committee members expressed general support for the information to be shared under the Protocol. CPAB, CPA Canada and ICD will work together to support directors in the roll out of the Protocol.

**(B) Cost vs. Benefit**

17. Responses to the Consultation Paper from certain audit firms questioned whether the benefits of sharing inspection findings outweighed the cost. These respondents were concerned that audit committees could perceive the sharing of inspection findings to represent an added cost without any associated benefit.
18. CPAB also received a response from the TSX Venture Exchange. The Venture Exchange supported the sharing of inspection findings as long as there is no material cost borne by issuers.

19. As part of our outreach, audit committee members have expressed support for the Protocol and indicated the primary benefit would be the access to CPAB’s findings to supplement their oversight of the auditor.
20. Under CPAB’s current regulatory model (prior to the implementation of the Protocol), when a significant inspection finding is identified, CPAB requires audit firms to perform additional audit work to reduce the risk of material misstatement. This requirement exists today and will not change when the Protocol is effective. Accordingly, the cost to the audit firm of performing additional audit procedures is not considered a cost of the introduction of the Protocol.
21. *Cost of sharing of CPAB’s Public Report*
- It is expected the Public Report would be distributed electronically together with information the auditor is required to communicate to audit committees under existing auditing standards.
- We do not believe the distribution of this information or discussion of the issues noted in the Public Report will create a material cost to reporting issuers because this discussion is intended to occur as part of regularly scheduled audit committee meetings.
22. *Cost of sharing RI file-specific inspection findings*
- In considering the cost of sharing RI file-specific significant inspection findings we note that CPAB does not identify significant inspection findings for the majority of files that are inspected.
- For those RIs where a significant inspection finding is not identified, the reporting under this Protocol would lead to no additional cost to the audit firm or the RI.
- For those RIs where a significant inspection finding is identified, audit firms will spend time discussing the issue with CPAB, reviewing the wording of the significant inspection findings document and considering their approach to discussions with the audit committee. There will be additional time spent by the audit firm and the audit committee reviewing the communication and discussing the issue in the audit committee meeting. However, because the additional audit work will normally have been completed by the time the issue is discussed with the audit committee, the time spent discussing the issue in an audit committee meeting will likely be limited as the issue has been resolved.
23. The Protocol has been developed with the objective of having a positive impact on audit quality by enhancing the ability of the audit committee to evaluate the quality and effectiveness of the audit through an increase in the transparency of inspection findings. Our expectation is that the additional time spent by the audit firm and audit committee will not be significant. Accordingly, we do not believe the communication of these issues will result in a material direct or indirect cost to the issuer.

**Planned impact on Protocol:**

Because the benefit of sharing inspection findings is seen to outweigh the costs, no changes are planned to the Protocol. CPAB will closely monitor the cost and benefit as the Protocol is implemented.

**(C) Confidentiality of RI file-specific inspection findings**

24. Many respondents to the Consultation Paper believed there was sufficient support for the confidentiality of the information to be shared under this Protocol. However, a number of Regional / Local audit firms expressed concerns as to whether the confidentiality of the information could be protected for smaller issuers and whether CPAB envisioned broad distribution of the inspection information.

**Planned impact on Protocol:**

The confidentiality section of the Protocol will be amended as follows:

“Before sharing information with financial and legal advisors ~~or anyone else to whom disclosure may be appropriate~~, RIs should ensure that the information will remain confidential.”

We believe this change addresses some concerns expressed by respondents that the inspection information would be widely shared.

We also note the following:

- Audit firms may wish to include contractual protection of the confidentiality of inspection findings in their engagement letter with the RI and/or by having a separate confidentiality agreement executed between the audit firm and the RI. This could include requiring the RI to notify the audit firm prior to sharing the information.
- A question on confidentiality will be added to the Q&A that will accompany the final Protocol.
- An appendix to communications of inspection findings to each audit committee will provide a background on CPAB’s inspections and will reinforce the responsibility for audit committees to keep the inspection information confidential, except to the extent required otherwise by law.

**(D) Voluntary nature of the Protocol**

- 25. Although there was general support for the voluntary nature of the Protocol, concerns were raised by a number of respondents that it would not be in the public interest if a significant number of audit firms choose not to share inspection information with audit committees. Several respondents indicated they believed CPAB should make the sharing of inspection findings mandatory if a sufficient number of firms do not share information as contemplated by the Protocol.
- 26. The Protocol was developed with key stakeholders to be voluntary because this approach is the most effective way for CPAB to respond in a timely way, under CPAB’s current Rules, to audit committees’ request for additional information about CPAB’s inspection findings. Upon finalization of the Protocol CPAB will ask audit firms to indicate whether they are participating. To provide transparency on the implementation of the Protocol, stakeholders will be able to access a list of the audit firms participating in the Protocol.

**Planned impact on Protocol:**

The Protocol will be implemented on a voluntary basis. To provide transparency on the implementation of the Protocol, stakeholders will be able to access a list of the audit firms participating in the Protocol.

CPAB will monitor the application of the Protocol to determine how many firms share inspection findings. Once the Protocol has been in place for a reasonable period (18-24 months), CPAB will evaluate the implementation and effectiveness of the Protocol and assess with key stakeholders whether the Protocol should be made mandatory.

**(E) Timing of reporting to audit committees**

- 27. During CPAB’s discussions with audit committee members and based on input from the ICD webcast and questions from the ICD Advisory Group, concerns were raised on the timing of reporting of file-specific inspection findings to the audit committee. Specifically, audit committee members wanted to know when they would receive notification that CPAB was performing a review of the audit file for their reporting issuer and when the audit firm would notify the audit committee of any significant inspection findings.
- 28. Generally, all significant inspection findings should be communicated to audit committees on a timely basis, shortly after the findings are finalized by CPAB. The audit committee and the auditor should agree in advance on the appropriate timing for communicating significant inspection findings. Some audit committees may prefer earlier notification of inspection findings than others. We would expect more timely communication if there is a likelihood of material error in the RI financial statements.

**Planned impact on Protocol:**

A question will be added to the Q&A that will accompany the final Protocol to address this issue.



## **(F) Firm-wide inspection findings**

29. During the consultation process CPAB received one response letter that supported sharing of firm-wide inspection findings. The requests included providing public reports on each firm and/or sharing CPAB's firm-wide recommendations with audit committees.
30. CPAB has not proposed the sharing of firm-wide information because we are concerned that the sharing of inspection findings at the firm level could significantly change CPAB's regulatory model and impact our ability to work proactively with audit firms to improve audit quality. The intention of the Protocol is to focus on issues that have a direct impact on the audit of an individual RI. We believe that firm-wide issues can be effectively addressed through the discussion of inspection findings noted in CPAB's Public Report.

### **Planned impact on Protocol:**

No changes have been made because the Protocol will require distribution of CPAB's Public Report which will facilitate the discussion of firm-wide inspection findings.

## **Other Changes**

31. In addition to the issues noted above, we have created a separate Q&A document that will accompany the final Protocol. This document includes the Q&A that was included in the draft Protocol as well as responses to other questions raised during the consultation process including:
  - *Distribution of CPAB's Public Report by the audit firms* – we have clarified that the Public Report can be communicated electronically.
  - *RIs without an audit committee* – we have clarified in the Protocol that the inspection information should be shared with those charged with governance if the RI does not have an audit committee.

## **Final Protocol**

32. The Protocol has been amended for comments received during the consultation process as noted in this summary. A final draft of the Protocol is attached as Appendix C. The final Protocol and the accompanying Q&A will be made available upon receipt of final approvals.

**Appendix A – List of Parties responding to the Protocol**

| <b>Name</b>   | <b>Role</b>                   |
|---|-------------------------------|
| Calvista LLP  | Audit firm – Regional / Local |
| Canadian Bankers Association                                  | Business Association          |
| Crowe MacKay LLP  | Audit firm – Regional / Local |
| D+H Group LLP   | Audit firm – Regional / Local |
| Dale Matheson Carr-Hilton LaBonte LLP                         | Audit firm – Regional / Local |
| Deloitte LLP  | Audit Firm - National         |
| Emerson Advisory  | Audit Committee member        |
| Ernst & Young LLP   | Audit firm – National         |
| Glenn Mifflin   | Other                         |
| Grant Thornton LLP / Raymond Chabot Grant Thornton LLP        | Audit firm – National         |
| J. Roland Vetter  | Other                         |
| KPMG LLP  | Audit Firm - National         |
| Manning Elliott LLP   | Audit firm – Regional / Local |
| Office of the Superintendent of Financial Institutions Canada | Regulator                     |
| parker simone LLP   | Audit firm – Regional / Local |
| PricewaterhouseCoopers  | Audit Firm - National         |
| Smythe Ratcliffe LLP  | Audit firm – Regional / Local |
| The Desjardins Group  | Audit firm – Regional / Local |
| TSX Venture Exchange  | Stock Exchange                |
| Wolrige Mahon LLP   | Audit firm – Regional / Local |

## **Appendix B – Results from ICD Survey**

### **Question 1**

**Voter Demographics Question: Please indicate which category below best describes your primary role and responsibility:**

| <b>Answer Options</b>                         | <b>Response Percent</b> | <b>Response Count</b> |
|---|-------------------------|-----------------------|
| Corporate Director                            | 83.6%                   | 61                    |
| CEO/CFO or other Management role              | 9.6%                    | 7                     |
| Partner or Member of a Public Accounting Firm | 5.5%                    | 4                     |
| Partner or Member of a Law Firm               | 1.4%                    | 1                     |
| Other (please specify)                        |                         | 4                     |

### **Question 2**

**How often does your audit committee discuss CPAB’s Public Report among yourselves or with your audit firm?**

| <b>Answer Options</b> | <b>Response Percent</b> | <b>Response Count</b> |
|-----------------------|-------------------------|-----------------------|
| Never                 | 61.3%                   | 46                    |
| Intermittently        | 33.3%                   | 25                    |
| Annually              | 5.3%                    | 4                     |

### **Question 3**

**If your audit was selected for inspection, will the communication of CPAB's inspection findings help the audit committee engage in a meaningful dialogue on the quality of the audit with their auditor?**

| <b>Answer Options</b> | <b>Response Percent</b> | <b>Response Count</b> |
|-----------------------|-------------------------|-----------------------|
| Highly unlikely       | 5.3%                    | 4                     |
| Maybe, not sure       | 39.5%                   | 30                    |
| Definitely            | 55.3%                   | 42                    |

### **Question 4**

**If your audit was not selected for inspection, does the CPAB Public Report provide enough specific information for the audit committee to have a meaningful discussion on audit quality with their audit firm?**

| <b>Answer Options</b> | <b>Response Percent</b> | <b>Response Count</b> |
|-----------------------|-------------------------|-----------------------|
| No, unlikely          | 14.5%                   | 11                    |
| Maybe, not sure       | 69.7%                   | 53                    |
| Definitely            | 17.1%                   | 13                    |

### Question 5

Should management be included in the audit firm's presentation on CPAB's inspection findings and discussions?

| Answer Options                                | Response Percent | Response Count |
|---|------------------|----------------|
| No, this is an audit committee responsibility | 18.4%            | 14             |
| Maybe, not sure                               | 25.0%            | 19             |
| Definitely                                    | 56.6%            | 43             |

### Question 6

Does your audit committee have members with sufficient auditing knowledge and experience to engage in a meaningful discussion of CPAB's inspection findings and public reports?

| Answer Options     | Response Percent | Response Count |
|--------------------|------------------|----------------|
| No, don't think so | 2.6%             | 2              |
| Maybe, not sure    | 10.5%            | 8              |
| Definitely         | 86.8%            | 66             |

### Question 7

Should audit committees ask their audit firm to provide information on how the audit firm ensures that any significant audit deficiencies or systemic issues described in CPAB's Public Report do not occur at the audit firm?

| Answer Options   | Response Percent | Response Count |
|--|------------------|----------------|
| No, focus on the issuer's audits selected for inspection | 5.3%             | 4              |
| Maybe, not sure  | 12.0%            | 9              |
| Definitely   | 82.7%            | 62             |

### Question 8

Will this Protocol promote a culture of open communication and continuous improvement with respect to audit quality?

| Answer Options         | Response Percent | Response Count |
|------------------------|------------------|----------------|
| No, or highly unlikely | 1.3%             | 1              |
| Maybe, not sure        | 52.6%            | 40             |
| Definitely             | 46.1%            | 35             |

### Question 9

Will the Protocol enable your audit committee to more effectively oversee the work of the auditor?

| Answer Options         | Response Percent | Response Count |
|------------------------|------------------|----------------|
| No, or highly unlikely | 1.4%             | 1              |
| Maybe, not sure        | 45.9%            | 34             |
| Definitely             | 52.7%            | 39             |

**APPENDIX C –  
FINAL DRAFT PROTOCOL  
FOR AUDIT FIRM  
COMMUNICATION  
OF CPAB INSPECTION FINDINGS  
WITH AUDIT COMMITTEES**

**March 2014**

## Background

1. The Canadian Public Accountability Board (CPAB) was established in 2003 as Canada's independent audit regulator. CPAB's mission is to contribute to public confidence in the integrity of financial reporting of reporting issuers (RI) in Canada by effective regulation and the promotion of quality, independent auditing. CPAB carries out its mission primarily by conducting inspections of the audit firms over which it has oversight responsibility.

There are 165 Canadian audit firms and 135 foreign audit firms currently participating in CPAB's audit regulatory program. These audit firms audit approximately 7,000 RIs (including investment funds). Annually, CPAB currently inspects 14 firms that audit 100 or more RIs. These audit firms audit 99.5 per cent of RIs in Canada by market capitalization. The remaining audit firms, that audit 0.5 per cent of RIs in Canada by market capitalization, are subject to periodic inspection.

2. CPAB's work primarily involves assessing the execution of methodologies, policies and quality control processes of the audit firms that participate in its oversight program.

The main focus of CPAB's inspections is on the quality of the audit work carried out by the audit firms. These inspections include approximately 200 – 250 audit files across 35 – 40 audit firms annually. File selections are based on the evaluation of risk factors for RIs and also consider audit firm-specific factors such as prior inspection results, partner experience, geographical distribution of offices and industry specialization. CPAB does not inspect the entire audit file. Instead, file inspection procedures cover between two and four specific focus areas which are generally material, high-risk financial statement items that require more complex estimates and judgments (e.g., impairment of long-lived assets, fair values of illiquid financial instruments, and business combinations).

Following each inspection, CPAB issues a private report which summarizes findings on the audit firm's quality control processes, individual file reviews and includes mandatory recommendations to improve audit quality which must be implemented within a specified time period. Additional information about CPAB's inspection process can be found at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca).

3. Annually CPAB publishes its Public Report on inspections of the quality of audits conducted by public accounting firms (Public Report). This report provides a summary of audit firm level inspection themes, recurring issues, trends and emerging issues. Findings are described without identifying the firms or RIs whose audit files gave rise to the findings. Audit committee members are anticipated to read CPAB's Public Reports and periodic newsletters issued for audit committees and discuss the audit quality issues with their auditor to understand how the audit

firm and audit team are responding to these issues.

4. Audit committees are key contributors to audit quality and play a critical role in creating the right environment for quality auditing. Audit committees are responsible for overseeing the work of the external auditor and have indicated to CPAB they would like more transparency with respect to inspection findings in order to improve the effectiveness of their oversight role. This Protocol has been developed with the objective of having a positive impact on audit quality by enhancing the ability of the audit committee to evaluate the quality and effectiveness of the audit through an increase in the transparency of inspection findings.

#### **Inspection findings to be communicated by audit firms to audit committees under this Protocol**

5. CPAB findings specific to the inspection of an individual RI are of most relevance to its audit committee and can directly improve both audit quality and the audit committee's oversight of the auditor.

The reporting of inspection findings under this Protocol has two components:

- Reporting to audit committees of the findings in CPAB's annual Public Report (see paragraph 6).
- The reporting of findings specific to the inspection of an individual RI (see paragraph 7).

CPAB believes that audit firm communication of RI specific inspection findings, combined with CPAB's public reporting, will assist audit committees in their oversight role and improve audit quality.

6. Under this Protocol, audit firms will ~~provide~~ send ~~Audit Committees with a copy of~~ CPAB's annual Public Report to audit committees. All RI audit committees will receive this information electronically on an annual basis.
7. In the event that CPAB has inspected the audit file of a RI, the audit firm will provide the audit committee with the following information:
  - (i) A description of the focus areas selected for inspection by CPAB.
  - (ii) An indication of whether or not there are any significant inspection findings.
  - (iii) Any significant inspection findings as reported by CPAB per CPAB's Engagement Findings Report (EFR) including a description of actions taken by the firm in response to the findings and CPAB's disposition.

A copy of this communication will concurrently be provided to CPAB by the audit firm.

8. Audit committee members are anticipated to discuss significant inspection findings with their auditor. These discussions should include understanding:
- The nature and root cause of the significant inspection finding.
  - The additional work performed by the audit firm to address the finding and related results.
  - The impact, if any, on previously issued or future financial statements.
  - Changes the auditor will be making to the audit approach to address the inspection finding.
9. CPAB encourages open and candid discussion of inspection findings between auditors and audit committees to assist the audit committee in their oversight of the auditor. Under this Protocol, CPAB waives the provisions of Rule 413 of CPAB's Rules to allow audit firms to communicate to audit committees whether or not there have been significant inspection findings (as defined in Section 11) and, if so, to communicate those findings, actions taken by the audit firm and CPAB's disposition.
10. It is important that audit committees understand the scope of CPAB's inspections, and the fact that CPAB does not inspect the entire audit file. CPAB's inspection findings are not intended to, and cannot, identify all weakness that may exist in an audit. In general, CPAB inspects higher-risk audit areas in the audit files of more complex public companies or companies where there is greater likelihood of identifying audit quality issues. CPAB does not report on areas of the audit file where auditors performed to, or beyond, required standards. As a result, CPAB's findings do not represent a balanced scorecard and cannot be extrapolated across the RI population as a whole.

The absence of significant findings in CPAB's inspection of an audit file should not be interpreted to mean that all aspects of the audit were fully compliant with professional standards, or that the RI's financial statements have been prepared in accordance with the applicable accounting standards.

An accompanying Q&A will be issued with the final Protocol to provide answers to common questions which may arise from audit committee members with respect to this Protocol.

### **Significant inspection findings**

11. Under this Protocol, all significant inspection findings will be communicated to audit committees.

A significant inspection finding identified by CPAB is defined as a significant 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 in the current year to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires the audit firm to respond in writing to all significant inspection findings.

### **Response to significant inspection findings**

12. At the completion of the inspection of an audit file, CPAB communicates its significant inspection findings (if any) to the audit firm.

In the normal course of responding to most significant inspection findings, the audit firm performs additional audit work in order to be satisfied the issued audit opinion remains appropriate.

If a potential material error in the RI financial statements is not identified, the audit firm would report the written communications required by this Protocol (see Section 7) to the audit committee at its next scheduled meeting. If a potential material error is identified, the audit firm will advise the RI, including its audit committee, on a priority basis.

The audit committee and the auditor should agree on the timing of when significant inspection findings should be communicated to the audit committee as some audit committees may prefer earlier notification of inspection findings.

In all cases, the audit firm will keep CPAB informed on the resolution of all significant inspection findings. As part of this process, the firm provides CPAB with evidence that the work was completed, including the results of the additional audit work. The audit firm also indicates to CPAB how its future audit approach will be changed as applicable.

### **Confidentiality**

13. Section 11(2) of the Canadian Public Accountability Board Act (Ontario) (CPAB Act) provides that all documents and other information prepared for or received by CPAB in the exercise of its mandate and all deliberations of CPAB and its employees and agents, in connection with an inspection, investigation or review panel proceeding carried out under CPAB's oversight program, are confidential. Management and Audit Committee members of RIs should take steps to ensure, except to the extent required otherwise by law, that the significant inspection findings they receive are kept confidential. Before sharing information with financial and legal advisors ~~or anyone else to whom disclosure may be appropriate~~, RIs should ensure that the information will remain confidential, except to the extent required otherwise by law.

### **Participation in the Protocol**

14. This Protocol is a voluntary Protocol which has been developed to respond to the demand from audit committees for additional information about CPAB's inspection

findings. To provide transparency on the implementation of the Protocol, audit committees and other stakeholders will be able to access a list of the audit firms participating in the Protocol.

#### **Amendments to the Protocol**

15. CPAB will periodically review and consult with key stakeholders on the functioning and effectiveness of this Protocol with a view, among other things, to modifying it should that be considered necessary.

#### **Applicability and Effective date**

16. This Protocol is effective for CPAB audit file inspections commencing on or after ~~March 31~~March 1, 2014.