D+H Group LLP
Chartered Accountants

January 24, 2014

Canadian Public Accountability Board
150 York Street, Suite 900
Toronto, ON
M5H 3S5

Dear Sirs:

Re: Consultation paper - November 2013
Protocol for audit firm communication of CPAB inspection findings with audit committees

We are writing to provide our thoughts and comments on the above-captioned consultation paper.

D+H Group LLP serves as auditor of approximately 45 reporting issuers, most of which are junior natural resource exploration businesses headquartered in Vancouver, BC.

We appreciate the opportunity to provide input on the protocol. We were one of a number of Vancouver-area mid-market public accounting firms to provide comments on a draft of the protocol in October 2013.

Overall comments

The draft protocol requires audit firms to notify reporting issuer audit clients when their audit files are inspected by CPAB regardless of whether there were significant inspection findings. This would be a significant change in practice, in our view, as we have rarely done so in the past.

In our view, this significant change in the level of transparency may have unintended consequences in terms of creating new risks. This would particularly be the case when material misstatements of financial statements come to light, possibly after a number of years of inspections, and where the entity has been formally notified of the inspection and the significant areas of focus. It appears to us this transparency could create expectations for CPAB to be in the public eye about those audit files and its inspections; or CPAB may otherwise be placed into that position by, for example, the media. That may be unwelcome to CPAB and may, in the public's view, undermine CPAB's credibility. It's also certainly possible that knowledge of CPAB inspections could be asserted by corporate directors and others as some form of due care defence in a litigation, or potential litigation, scenario. The present system does not appear to possess these risks as no formal notification is required by audit firms.

We also have two broad areas of concern with the draft protocol:

Confidentiality

Paragraph 13 refers to Subsection 11(2) of the *Canadian Public Accountability Act* (Ontario) in the context of confidentiality. We understand this law applies to CPAB and its employees and agents. It is unclear to us whether this law imposes obligations on reporting issuer management and directors, whether those persons are resident in Ontario or not, and also whether this law applies to non-Ontario public accounting firms.

The section half of paragraph 13 outlines steps CPAB believes management and Audit Committee members should take in respect of confidentiality, but we're unclear as to where a legal obligation upon those persons to maintain confidentiality originates?

We are very concerned that inspection information provided to Audit Committee members will become more widely known either innocently or with a malicious purpose. Audit Committee members in the Vancouver marketplace tend to serve a number of entities, often a large number of entities. Surely they will take knowledge gained from one entity to other entities, and it seems inevitable that inspection findings will migrate between entities and their directors and management. Some unscrupulous individuals may even use inspection findings, or the lack thereof, to influence investment decisions in the capital markets.

It seems to us that CPAB likely does not have the authority to impose lawful requirements on directors and management. Audit firms may attempt to do so under audit engagement agreements, but the remedy in such cases may be of limited deterrent value if serious matters should arise. Also, an audit engagement letter only binds the parties to the agreement, being the public accounting firm and the audit client itself.

Given how important protecting confidentiality is in this context, we would suggest CPAB consider whether this initiative should reside within amendments to the securities laws or regulations, through which direct obligations to protect confidentiality may be imposed on directors and members of management.

Cost versus benefits

While we're certain there are some Audit Committees interested in the type of communication contemplated by the draft protocol, we believe the majority of Audit Committee members in our marketplace would perceive little to no value for a number of reasons.

Canadian Auditing Standards mandate a number of communications between the auditor and Audit Committees. In a typical reporting issuer audit, the auditor has at least two formal communications with the Audit Committee, one prior to commencement of the audit and one at or near completion of the audit. Our experience has been, generally, that our clients' audit committees are very dedicated and conscientious with respect to the key issues of relevance to their businesses, but those issues rarely relate to accounting and auditing matters. Corporate directors, from whom Audit Committee members are drawn, in the junior resource sector tend to focus on corporate finance issues and results of exploration and development activities. Frankly, in our experience, the market price of these issuers is rarely affected by financial results but rather by changes in management, changes in metals prices and exploration results. Entities in this sector typically report large accounting losses and losses per share, and often struggle to remain financially solvent, yet often they maintain substantial market capitalizations due to their underlying drivers of value.

Few Audit Committee members in the Vancouver marketplace are, in our experience, professional accountants, and hence could be expected to possess the in-depth knowledge of accounting and auditing standards often necessary to understand the significant accounting and auditing matters the apply to their businesses. We generally find it very hard to engage with Audit Committees on technical accounting and auditing matters as Audit Committees tend to rely heavily on issuers' Chief Financial Officers and the auditors to address about those matters.

We in no way wish our comments above to be interpreted as disparaging those who serve on Audit Committees in our marketplace. We've found, nearly universally, that these individuals serve for little or no direct compensation, except perhaps share options, and contribute generously of their time and expertise. In difficult market conditions, such as has been the case over the past two years, these individuals often contribute personal funds to keep their issuers solvent, frequently with little expectation of repayment. Placing an additional burden upon these individuals does not appear, to us, to square with the little to no anticipated benefits we foresee.

Additionally, the type of communication contemplated by the protocol will certainly add to the cost of reporting issuer audits. These costs have increased significantly over the past ten years, and further financial burdens must be justified with at least equal value being received.

While NI 52-110 places the same level of responsibility on Audit Committees to oversee the work of external auditors, the Canadian Securities Administrators have also clearly distinguished between venture and non-venture issuers in many contexts. We would strongly urge CPAB to consider making this protocol applicable to non-venture issues only. Failing that, we suggest a phased implementation should be considered, perhaps with venture issues becoming subject to the protocol a number of years after non-venture issuers. This would allow CPAB to conduct a post-implementation review and consider whether the protocol is serving the needs of the stakeholders who are most likely the strongest source of demand for the protocol.

Other concerns

We are also concerned of potential changes in behaviour that are likely to arise as a result of the protocol. Knowing that inspection findings must be laid bare to an Audit Committee will, most certainly, lead to audit firms being much more engaged in resisting EFR 1 findings. We would anticipate this to significantly increase the amount of time spent on CPAB inspections of participating firms, consuming both the firm's time and CPAB's time, likely at senior levels. Again, this foreseeable increase in cost must be justified by benefits of at least equal value.

We also find it unlikely that Audit Committees in our marketplace would read CPAB's annual report and discuss the report with auditors for the reasons noted above, most notably being the complex technical nature of many of the issues.

We appreciate the opportunity to provide these thoughts and comments. Should you have any questions or wish further discussion, please contact Gordon Cummings of our office at gcummings@dhgroup.ca or 604-731-5881.

Yours truly,

D+H GROUP LLP

"D+H Group LLP" /s

Per: G.D. Cummings Ltd.