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Via e-mail: Consultation@cpab-ccrc.ca

Re: Protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees (Consultation Paper)

We welcome the opportunity to comment on the proposed protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees (the "Protocol").

We have some concerns relating to the proposed Protocol. A number of these concerns are consistent with other audit firms in our peer group and were communicated to CPAB via a joint e-mail on October 31, 2013. We would like to re-emphasize these concerns and are pleased that CPAB will consider these comments before finalizing the Protocol.

Our responses to CPAB's specific questions for comment are as follows:

- 1. Will the information shared under this Protocol assist Audit Committees in their oversight role and improve audit quality (see Paragraphs 10 to 13 for a summary of the information to be shared)? If not, please explain why you are of that view.**

We consider this to be two separate, although related, questions: Question 1a) being whether the Protocol will assist Audit Committees in their oversight role and Question 1b) being whether or not the information shared under this Protocol will improve audit quality.

Response to question 1a):

As outlined in CPAB's consultation paper, Audit Committees are responsible for overseeing the work of the external auditor and certain of these Audit Committees have indicated to CPAB they would like more transparency with respect to inspection findings in order to improve the effectiveness of their oversight role.

We question the extent to which the proposal would provide relevant assistance to the Audit Committees of most Venture Issuers. Due to the exemptions under Part 3 of National Instrument 52-110, these Audit Committees frequently do not have the financial expertise to properly consider the implications of a significant engagement deficiency. From our experience, most of these Audit Committees would view this process as an additional burden and require the use their time on an area that is not the primary focus of RI.

We recognize that the communication by audit firms of significant audit findings may give rise to some degree of assistance to some Audit Committees in satisfying their responsibility of overseeing the work of the external auditor. However, this communication will only take place in the event that a Reporting Issuer ("RI") audit file is selected by CPAB for inspection. According to the consultation paper, CPAB inspects approximately 200 – 250 audit files on an annual basis. There are approximately 7,000 RIs audited by firms that are participating in CPAB's audit regulatory program. Therefore, audit files of only 3 – 3.5% of RIs are inspected annually. From our firm's experience, CPAB inspects approximately 3% of our RIs on an annual basis. Given that greater than 95% of RIs are not inspected in any particular year, and that most RIs will either go many years without having their audit file subject to inspection or will never have their files subject to inspection, the vast majority of RI Audit Committees will derive minimal assistance from this component of the Protocol.

We also note that the information shared under this Protocol will relate to audit work done in an already completed audit file. Where it is determined that a deficiency does exist that requires additional audit work, CPAB will typically request that the firm provide to them evidence that the work has been performed or will inspect the work in a subsequent or follow-up inspection. In addition, firms would typically be required to implement changes to their systems of quality control to ensure that such deficiencies do not recur in future audits. Therefore, the risk that a similar deficiency would occur in a future audit of that RI is very low diminishing the relevance of this information to the RI's Audit Committee.

CPAB is also proposing to have audit firms provide Audit Committees with a copy of CPAB's annual Public Report. There is some information in this report that may be of assistance to Audit Committees in their oversight role. In particular, the report discusses common inspection findings which Audit Committees may refer to when discussing the audit plan with their auditors. However, the 2012 report was 32 pages long, while only four pages were allocated to discussion of common inspection findings. While other information may be of interest to audit firms and other stakeholders, we recommend that CPAB evaluate the extent to which certain components of this report will be of substantive use to Audit Committees. CPAB should consider preparing an alternative more focused report that is specific to Audit Committees and make this report available on their website.

Response to question 1b):

We consider that the information shared under this Protocol will have minimal effect on audit quality.

In the performance of an audit, Canadian auditing standards already require an auditor to make certain communications with the Audit Committee relating to auditor responsibilities, scope and timing, risks and findings. Canadian auditing standards also note that care is required when communicating with Audit Committees regarding scope and timing of the audit so as not to compromise the effectiveness of the audit. In particular, it notes that communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable. Under this protocol, the auditor will lose some of the control they previously had in determining what information should be shared with Audit Committees. There may be instances where, subsequent to the completion of an audit, a firm becomes aware that there were certain deficiencies in their work. Depending on the significance, it may be appropriate to communicate these matters to the audit committee. However, given that audit firms are ultimately responsible for forming an opinion and reporting on the financial statements, it should be their decision on what matters need to and should be communicated.

2. Will the confidentiality of RI file specific inspection findings to be shared under this Protocol be appropriately protected? If not, please provide your comments on changes that can be made to improve the confidentiality protection of the inspection findings.

Our firm is concerned that the confidentiality of RI file specific inspection findings shared under this Protocol will not be adequately protected. Our concerns result from the following factors:

- Unlike members of audit firms, the recipient individuals (Audit Committee members) are not necessarily members of a professional body (e.g. the provincial institute of Chartered Accountants), and hence are not subject to codes of conduct that address such matters as confidentiality;
- Recipient individuals may not have the appropriate training and background to understand what confidentiality truly means or what their responsibilities are; and
- The market that is most relevant to our firm has a number of smaller RI's with directors that are on multiple boards. This may give rise to a conflict between their duty with the RI to maintain the confidentiality of all information shared with them under this Protocol and their responsibilities pertaining to other RI's.

Given the factors described above, our feeling is that it will be difficult to adequately protect the confidentiality of RI file specific inspection findings shared under this Protocol. We suggest that such findings are not communicated to Audit Committees to ensure confidentiality is protected.

3. Do you have other comments on the proposed Protocol?

As discussed in CPAB's 2011 and 2012 Public Reports, CPAB required a number of audit firms to prepare root-cause analysis in cases where there were disappointing inspection results and implement action plans to improve audit quality. CPAB noted in their 2012 Public Report that firms responded positively to this process and improvements were noted. While CPAB has not yet released their 2013 Public Report, our sense is that there have been further and substantial improvements in inspection results. Our experience working with the CPAB inspection team assigned to our firm has been very positive. There has been a high level of cooperation implementing recommendations and these have resulted in higher quality audits. Our concern is that the nature of this Protocol would impair firms' working relationships with the CPAB inspection teams and reduce the cooperation that has yielded positive results. The Consultation Paper notes that CPAB consulted with key stakeholders including corporate directors, audit firms, securities regulators and legal advisors to develop the Protocol. We would be interested in the views and /or concerns that CPAB inspection team leaders have regarding the Protocol and the extent to which they were consulted.

We appreciate the fact that CPAB's ultimate goal is to enhance audit quality and believe that the findings and recommendations from CPAB in recent years has led to substantial improvements. Given the concerns we have listed in our response, we do not agree that the proposal to require communication of RI specific CPAB inspection findings to Audit Committees will further improve audit quality and may in fact have negative consequences.

Yours very truly,

Handwritten signature in black ink, consisting of the letters 'DMCL' in a stylized, cursive font.

**Dale Matheson Carr-Hilton LaBonte LLP
Chartered Accountants and Business Advisors**