

January 24, 2014

Mr. Kam Grewal  
Vice President  
Canadian Public Accountability Board  
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Email: [consultation@cpab-ccrc.ca](mailto:consultation@cpab-ccrc.ca)

Dear Mr. Grewal:

**Subject: Consultation Paper – Protocol for Audit Firm Communication of CPAB  
Inspection Findings**

We are pleased to have the opportunity to comment on CPAB's Consultation Paper – *Protocol for Audit Firm Communication of CPAB Inspection Findings* ("Protocol"). Our responses to the request for specific comments follow herewith and we look forward to continuing working with CPAB to enhance audit quality.

Should you wish to discuss any of our comments, please do not hesitate to contact **Jeremy Jagt (Jeremy.Jagt@ca.gt.com)** or **Gilles Henley (Henley.Gilles@rcgt.com)**.

Yours sincerely,

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- 1. Will the information shared under this Protocol assist Audit Committees in their oversight role and improve audit quality? If not, please explain why you are of that view.**

We agree that the Protocol can assist Audit Committees in their oversight role and through increased transparency the Protocol should improve Audit Committees' knowledge of CPAB's inspection processes and reporting.

Whether or not the Protocol contributes to an improvement in audit quality will be difficult to determine (in isolation from other forces at work to achieve the same) and will be largely dependent on how Audit Committees and auditors respond to the additional information. In order for the additional information to improve audit quality, it is of critical importance that effective two-way dialogue result from sharing and discussing findings

In addition, while we understand and appreciate the need to maintain the integrity of CPAB's inspection process, we believe that circumstances will arise where it may be difficult to apply appropriate context to particular findings (or lack thereof as may be the case). We believe it will take time for Audit Committees to develop a thorough understanding of both the scope of CPAB's inspections (as CPAB has acknowledged within the Protocol) and auditing standards. As a result, it may be that inspection findings shared under the Protocol provide more information to Audit Committees however; verifying whether the Protocol is effective in improving Audit Committee evaluation of auditors' work may remain elusive.

As noted, there are a number of other projects and initiatives being undertaken by various stakeholders (governing bodies, regulators, etc.) directed at improving audit quality. It is important to acknowledge that this Protocol's scope is limited due to its focus on inspection findings and hence addresses but one piece of a larger puzzle. We believe, long-term, sustainable improvements in audit quality are more likely to result from a more holistic approach to communication with Audit Committees, (eg. through initiatives such as what is suggested by the Center for Audit Quality<sup>1</sup>). We trust that CPAB remains committed to its joint initiative with CPA Canada on Enhancing Audit Quality and that due consideration is being given to ensuring that measures are taken to enhance audit quality for the long-term.

- 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.**

We believe that there are challenges with respect to maintaining confidentiality of inspection findings shared under this Protocol. While we expect that Audit Committees will maintain confidentiality of information specific to RIs for which they act, those Audit Committee members that represent multiple RIs inevitably will have and use knowledge obtained in one, with others. We trust that Audit Committees will treat the information appropriately; in some respects however, it is impossible to predict what circumstances could arise once information is shared.

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<sup>1</sup> Audit Quality Reporting published by the CAQ

We hope that CPAB will support the efforts of the firms in impressing upon management and audit committees the importance of the confidentiality of the findings and that they are bound by statutory restrictions on disclosure.

The last sentence of Paragraph 13 of the Protocol document states “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 suggest that this could be more precise and restrictive as to who may see this information. We have concerns about the phrase “anyone else to whom disclosure may be appropriate” which seems too broad. We also believe that RIs should also request permission from the audit firm before sharing the information with other persons.

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

- a) We suggest that CPAB consider a phased approach to implementation of the Protocol by having the protocol apply in the first instance to non-venture RIs, or alternatively segmenting the applicability by market capitalization. After a suitable period (eg. one or two years) any desired revisions to the Protocol could be incorporated and then full adoption could be contemplated. Our view is based on the following:
  - i. First, the Canadian marketplace is characterized by great variability in size of RIs with a large number of “small” RIs. While acknowledging that RIs and their auditors, regardless of size, have clear responsibilities with respect to ensuring high quality financial reporting, smaller RIs tend to have fewer resources and less sophistication within their management team and board. This often results in a relationship with auditors that is less formalized and often changes the nature of communications between the auditor and the RI. Use of the Protocol within this segment of the market may vary from the approach for larger RIs and may require additional depth in explaining auditing standards, more education on complex accounting matters and therefore often additional context for particular findings. Since it is important to ensure that communications are not boilerplate, it’s reasonable to expect that the manner of communication may need to evolve over time, particularly for this segment of the market.
  - ii. Secondly, in a marketplace where the vast majority of audit services (based on market capitalization) are provided by the four largest firms it is increasingly difficult for other firms to compete effectively and for the marketplace to create competition. There is the risk that a negative finding relating to a non-Big4 firm will be perceived differently and more negatively than if the same finding related to a Big4 firm. If this were to happen it would reinforce existing bias about the capabilities of firms other than the Big4 unless the people receiving the information are very well informed about the inspection process and the context in which it is conducted. Well established brands with very long histories may have more resilience to negative findings which would lead to the perception on the part of audit committees that the safe approach is to choose one of the Big4 as auditor. We firmly believe that the audit marketplace is better served by broader choice and that a possible unintended consequence of this Protocol is that it could contribute to decisions by RIs that result in further concentration of audit work between very few firms.

We believe a phased approach to implementation would allow CPAB and RIs to better determine whether the Protocol will achieve its objectives across the market; address the concerns relating the potential impact on auditor choice in the marketplace; and potentially inform an analysis of the operability of the confidentiality provisions raised in CPAB's question.

- b) In addition to the preceding, we also suggest that CPAB consider whether, given the evolution of this Protocol, it should have a continuing and expanded role in educating audit committees with regard to the Protocol and other matters that can improve audit quality and that could enhance the value that audit committees provide to their RIs.
- c) As a final comment, we noticed a translation issue. The English version of paragraph 8 states that: «Audit Committee members are anticipated to discuss...». The French version of that paragraph reads as follows: «Les membres du comité d'audit doivent discuter...». To correctly reflect the meaning of the English version, we suggest that the French version be modified as follows: « Il est prévu que les comités d'audit discutent ...»