

# **Canadian Public Accountability Board issue of a draft protocol for audit firm communication of CPAB inspection findings with audit committees**

## **Specific Questions comment**

**Question #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.**

### **Protocol for audit firm communication of CPAB inspection findings**

10. 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 11); and
- The reporting of findings specific to the inspection of the audit of an individual Reporting Issuer (see paragraphs 12 and 13).

11. Under this Protocol audit firms will provide Audit Committees of all Reporting Issuers **with a copy of CPAB's public report on an annual basis.**

CPAB's public reports highlight systemic issues across inspections of audit firms and provide examples of mandatory recommendations that audit firms must implement to improve audit quality.

It is anticipated that Audit Committees will read CPAB's public report and discuss audit quality issues with their auditor to understand how the firm and audit team are responding to these issues.

12. The reporting of findings specific to the inspection of an individual Reporting Issuer **is seen to be of the most relevance to its Audit Committee because this can directly improve both audit quality and the Audit Committee's oversight of the auditor.**

### **Appendix A – Draft Protocol**

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 Reporting Issuer's financial statements have been prepared in accordance with the applicable accounting standards.

The Appendix provides 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 Reporting Issuers 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 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 Reporting Issuers 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, Reporting Issuers should ensure that the information will remain confidential.

**REPLY:** I feel that the information shares will definitely assist Audit Committees in their oversight role and improve audit quality. This will create on going awareness of where the Reporting Issuer's accounting protocol, correct disclosure risk management and Internal Audit were deficient and as these items slipped the auditors net there is an on going need to be vigilant.

**Question #2: Will the confidentiality of Reporting Issuer file specific inspection findings to be shared under this Protocol be appropriately protected (see paragraphs 14 and 15 for a discussion of this issue)?**

**Confidentiality**

14. Maintaining the confidentiality of inspection information related to the audit firms and their RI clients is critical to the effectiveness of CPAB's regulatory oversight model.

15. Confidentiality of the information shared under this Protocol is being addressed in three ways:

(i) **Under legislation, the CPAB Act requires inspection findings to be kept confidential.**

(ii) Audit Committees have a fiduciary relationship with the reporting issuer and have a duty to maintain the confidentiality of all information shared with them, including any information shared under this Protocol .

(iii) If Audit Committees want to share the information with advisors or others who are not officers or directors of the Reporting Issuer they should ensure that the information will be kept confidential.

**REPLY:** I feel that the confidentiality of sharing the said information with the Audit Committees is sufficiently well covered under paragraph 15 sub-sets I through iii.

**Appendix A – Draft Protocol**

**Confidentiality**

13. In the event that CPAB has inspected the audit file of a Reporting Issuer, 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; and,

(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.

**Question #3: Do you have other comments on the proposed Protocol?**

**REPLY:** I feel that the Protocol is very important in order to give the Audit Committee total transparency on what additional matters, although not exhaustive, were picked up. Giving them better oversight. I like the Q&A section to answer the possible grey areas.

Sincerely, J Roland Vetter