

January 23, 2014

Canadian Public Accountability Board  
150 York Street, Suite 900  
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Canada

Via e-mail: [consultation@cpab-ccrc.ca](mailto:consultation@cpab-ccrc.ca)

**Re: Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (the “Draft Protocol”)**

We are writing to you to provide our comments on the Draft Protocol issued in November 2013. We thank you for the opportunity to provide our comments on this very important audit quality initiative.

We believe it is important for auditors and audit committee members to have an open and transparent process to communicate issues related to the audit. An open and honest dialogue between the audit committee and the auditors is essential in ensuring a high level of audit quality.

We draw to your attention that we were part of a group of audit firms that submitted a letter dated October 31, 2013 to CPAB in response to the Draft Protocol. This group of audit firms from British Columbia collectively audit approximately 800 reporting issuers, the majority of which are listed on the TSX Venture Exchange or the Canadian Securities Exchange. The letter outlined a number of concerns pertaining to the Draft Protocol. We kindly request you consider those concerns and the concerns and comments addressed below prior to finalizing the Draft Protocol.

We provide the following with regard to the specific questions outlined in the preamble to the Draft Protocol.

**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.”*

In our view, the answer to this question depends on who the target audience is. As outlined in the earlier letter, we believe the non-venture issuers and their audit committees would benefit the most from such a communication. The audit committee members of most non-venture issuers typically include designated accountants or business people that have a strong background in audit/accounting or finance and experience dealing with accounting and audit issues. This is not always the case for audit committees of venture issuers as these are generally comprised of directors with varied backgrounds. Audit committee members of venture issuers are not required to have the same level of financial literacy as those for non-venture issuers. The enhancement of audit quality will only be achieved if the parties involved in the process are willing participants and have an understanding of what the issues are. Without that background, many audit committee members will perceive



engagement file review 1 (“EFR1”) comments as an audit issue, to be dealt with by the auditor. In our view a result that would not enhance audit quality. As outlined in the earlier letter, Part 3 of NI 52-110 acknowledges this for venture issuers by providing for an exemption related to the composition of an audit committee. In addition, many of the audit committee members of venture issuers will simply not have time or be inclined to deal with this issue seriously. They will simply view this as an added cost without any associated benefit, especially in the current economic environment where resources and time are scarce for many venture issuers.

An alternative way of dealing with this fundamental difference may be to implement a two tiered system. The communication of EFR1 comments suggested in the Draft Protocol would be mandatory for audits of non-venture clients with EFR1 issues, and optional for audits of venture issuers. The audit committees of venture issuers may choose to receive the communication and if so, the audit firm would be required to provide such information to the audit committee of the venture issuer. This process could be monitored for the first year or two to determine whether it was being used to enhance audit quality for venture issuers. A further recommendation could be made based on the results of the monitoring. We believe audit firms would be more willing to adopt this voluntary Draft Protocol if it was structured in such a manner. Audit committees of venture issuers would then have the option to decide what resources to commit and how to proceed with any EFR1 comments issued with respect to the audit of that venture issuer.

## **Question #2**

*“Will the confidentiality of RI file specific inspection findings to be shared under this Protocol be appropriately protected (see paragraphs 14 and 15 for a discussion of this issue)? If not, please provide your comments on changes that can be made to improve the confidentiality protection of the inspection findings.”*

We believe the confidentiality contained in the Draft Protocol will be very difficult to enforce and administer. In the short term this will cause a great deal of uncertainty with respect to the confidence audit committee members have in their auditors and will not improve audit quality. The Draft Protocol does bind audit committees and audit committees have no compulsion to abide by the confidentiality clause. It is unlikely that many audit committee members for venture issuers will review or even be aware of the requirements in this protocol if implemented. The enforcement of a rule without the imposition of non-compliance consequences, in our view is meaningless. We do not believe that any changes that could be made to the existing Draft Protocol would be able to ensure that confidentiality will be maintained. This element of the Draft Protocol would need to be enacted into statute, or subject to a contractual commitment with each audit committee member. The practicality and cost of implementing and monitoring this and pursuing any violations far outweighs any benefits. Without any legal or contractual framework, the confidentiality will be impossible to enforce. It’s uncertain what this will mean for the long term but the short term effects could be damaging to all the audit firms generally, and will not enhance audit quality.



**Question #3**

*Do you have other comments on the proposed Protocol?*

We believe it is redundant to request that audit firms distribute or deliver copies of CPAB's annual report to audit committees. This is already a public document which is readily available. It's unclear to us how the dissemination of this report by the auditor is intended to improve audit quality. Audit firms are already tasked with providing CPAB with an onerous amount of information about the firm's reporting issuers. In addition, a tremendous amount of resources are being committed by audit firms to facilitate a very vigorous CPAB inspection process. Requiring audit firms to perform additional administrative procedures on CPAB's behalf which are unrelated to the performance of quality audits does not appear to be a productive use of scarce resources that would be better committed to the completion of quality audits instead. CPAB's annual report has always been accessible on CPAB's website. We believe CPAB's annual report would receive far greater attention if it was delivered to audit committees directly by CPAB. The contact information for reporting issuers and individual audit committee members to whom this report should be delivered are a matter of public record. CPAB will have more effective control in the process and can add supplemental information to assist and guide audit committee members in understanding of the inspection and reporting process.

We thank you for allowing us to submit our comments regarding this very important audit quality initiative. We kindly request that you take our comments along with the comments provided in the joint letter submitted earlier into account prior to making any final decisions regarding the Draft Protocol.

Respectfully yours,

**Manning Elliott LLP**

*Manning Elliott LLP*