



**PROTOCOL  
FOR AUDIT FIRM  
COMMUNICATION  
OF CPAB INSPECTION FINDINGS  
WITH AUDIT COMMITTEES**

**FREQUENTLY ASKED  
QUESTIONS**

**March 2014**

## **Background**

The Canadian Public Accountability Board (CPAB) was established in 2003 as Canada's independent audit regulator. CPAB's mission is to contribute to public confidence in the integrity of financial reporting of reporting issuers (RI) in Canada by effective regulation and promoting quality, independent auditing. CPAB carries out its mission primarily by conducting inspections of the firms over which it has oversight responsibility. The primary focus of CPAB's inspections is on the quality of the audit work as evidenced in the audit firm's audit files.

In March 2014, CPAB issued the [Protocol for audit firm communication of CPAB inspection findings](#).

The reporting of inspection findings under this Protocol has two components:

- Reporting to Audit Committees of the findings in CPAB's annual Public Report; and
- The reporting of findings specific to the inspection of the audit of an individual RI.

CPAB's annual Public Report highlights systemic issues across inspections of audit firms and provides 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.

In the event that CPAB has inspected the audit file of a RI, 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 including a description of actions taken by the firm in response to the findings and CPAB's disposition.

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.

To assist audit committees and audit firms with implementation of the Protocol, CPAB has developed this document.

## **CPAB’s Public Report**

**1. What information will be provided to audit committees of reporting issuers whose audit files have not been inspected by CPAB in a given year?**

These audit committees will receive CPAB’s annual Public Report on Inspections. CPAB’s Public Report on Inspections has always been available to audit committees, but having the audit firm provide it will encourage audit committee members to read it and discuss audit quality issues with their audit firm.

**2. What can audit firms discuss with audit committees related to the Public Report?**

We would expect the audit firms’ discussion of the Public Report to address actions taken to ensure issues do not arise on each of their audits. This will include discussion of processes or controls in place and actions taken at the audit firm level as well as by the engagement team auditing the individual RI. We would not expect audit firms to indicate whether any individual issue discussed in the Public Report was applicable to the specific audit firm as this is not consistent with the confidential nature of communications between CPAB and the audit firm.

## **CPAB Confidential Inspection Report to audit firm**

Following each inspection, CPAB issues a confidential inspection report to the audit firm which summarizes findings on the audit firm’s quality control processes, individual file reviews and includes mandatory recommendations to improve audit quality which must be implemented within a specified time period.

**3. If an audit committee requests access to the confidential inspection report on the audit firm, can this be provided?**

No, Rule 413 of CPAB’s Rules does not permit the sharing of the confidential inspection report.

We believe the use of confidential inspection reports to the audit firm is an important part of CPAB’s regulatory model which allows us to make recommendations to improve audit quality that remain confidential as long as the audit firm implements CPAB’s recommendations on a timely basis.

**4. Why is there no communication of firm-wide issues to audit committees in the Protocol?**

Firm-wide issues are not specifically included in the Protocol since the intention is to focus on issues that have a direct impact on the audit of an individual RI.

The more common firm-wide inspection findings are described in CPAB’s Public Report. We believe an open and candid discussion of the issues noted in CPAB’s Public Report provides an opportunity for audit committees to discuss audit quality

initiatives that are being implemented at a firm wide level.

**5. How should an audit firm respond to questions by audit committee members about specific partners' inspection results?**

The sharing of individual inspection results should be limited to a discussion of findings from CPAB's inspection of the audit of the audit committee's RI. The sharing of individual audit partner results from inspection of other audit files may breach confidentiality requirements by disclosing information about other RIs.

In addition, CPAB believes an approach to provide inspection results for individual partners is not consistent with a shared accountability where the actions of the audit team and audit firm as a whole supports audit quality.

### **RI file-specific findings**

**6. What is the responsibility of the audit committee if the auditor advises the committee that additional audit work is required in response to a CPAB finding and the RI is in the process of releasing financial results?**

The audit committee's responsibility is the same as in other circumstances where there is a risk of material misstatement of the financial statements. The audit committee should direct management to co-operate with the external auditor to support the additional work to be performed.

The audit committee may need to consult with legal counsel in certain circumstances to determine the appropriate actions to be taken.

**7. What happens when the audit firm disagrees with CPAB on a significant inspection finding?**

CPAB's process in finalizing significant inspection findings includes detailed discussions with the engagement team and review of all the available audit evidence. CPAB's process also includes a rigorous consultation and review process to validate significant inspection findings before they are communicated in writing to the audit firm. We acknowledge there may be circumstances where there is a difference of opinion between CPAB and the audit firm. Irrespective of a disagreement between CPAB and the audit firm, CPAB will require, where necessary, the audit firm to perform additional audit work to ensure the audit opinion is supported and to reduce the risk of material misstatement.

In communicating a significant inspection finding where there is a disagreement, audit firms are expected to ensure the audit committee is provided with a fair and balanced summary of the significant inspection finding. Because any significant inspection findings provided to the audit committee will be written by CPAB (finding and disposition) and the firm response will have been reviewed by CPAB, audit committees should be confident the written communication is fair and balanced.

**8. What is the process for reporting findings on SEC registrants?**

The following processes will be used for inspections of RIs that are public in Canada and the US.

- (i) Joint inspections with the Public Company Accounting Oversight Board (PCAOB) – the communication to the audit committee at the conclusion of a joint inspection will include significant inspection findings identified through the inspection by CPAB including consideration of issues raised by the PCAOB.
- (ii) PCAOB only inspections – Such inspections are not subject to the Protocol. Information on inspection findings related to PCAOB inspections can be found at:

[http://pcaobus.org/Inspections/Documents/Inspection\\_Information\\_for\\_Audit\\_Committees.pdf](http://pcaobus.org/Inspections/Documents/Inspection_Information_for_Audit_Committees.pdf)

**9. If CPAB hasn't identified a significant inspection finding, does that mean there are no problems with the audit?**

CPAB does not inspect entire audit files and its inspections are not intended to identify all weaknesses that may exist in an audit. Audit committees should not interpret the absence of significant findings as meaning that all aspects of the audit complied with professional standards or that the financial statements were prepared in accordance with applicable accounting standards.

**Timing – RI file-specific inspection findings**

**10. When will significant inspection findings be communicated?**

The audit committee and the auditor should agree in advance on the appropriate timing for communicating if CPAB has selected the audit file for inspection as well as the timing of communicating any significant inspection findings.

Generally, all significant inspection findings should be communicated to audit committees on a timely basis, shortly after the findings are finalized by CPAB. We would expect more timely communication if there is a likelihood of material error in the RI financial statements.

**Confidentiality**

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. All parties that are receiving this information will have a responsibility to ensure the information remains confidential.

**11. How will the confidentiality of the RI file specific inspection findings be protected?**

Confidentiality of the information shared under the Protocol is addressed in three ways:

- (i) Under legislation, the *Canadian Public Accountability Board Act (Ontario) (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) Before sharing information with financial and legal advisors, RIs should ensure that the information will remain confidential, except to the extent required otherwise by law.

In addition to the confidentiality protection noted above, audit firms may choose to take additional steps to protect the confidentiality of the inspection information by including language in their engagement letters or other agreements with the RI and its audit committee.

**Audit committee communication with CPAB**

The objective of the Protocol is to provide information that will enhance the audit committee's oversight of the auditor while not interfering with the direct relationship between the auditor and audit committee.

**12. Can audit committees communicate directly with CPAB?**

CPAB expects that questions related to inspection findings will be discussed between the audit committee and the audit firm. Because any significant inspection findings provided to the audit committee will be written by CPAB (finding and disposition) and the firm response will have been reviewed by CPAB, audit committees should be confident the written communication is fair and balanced.

The circumstances where CPAB will meet with audit committees are expected to be rare. In these instances, CPAB's comments would be limited to the specific details of the significant inspection finding and would not include discussions of firm-wide inspection findings to ensure information about the inspection of the audit files for other RIs are not disclosed.

**Other questions**

**13. How does the reporting under the Protocol interact with the audit committee's evaluation of the auditor?**

A key oversight activity of audit committees is annually assessing the effectiveness of the external auditor. Information related to the results of CPAB's inspections should be one of the inputs into the audit committee's overall assessment of the

auditor.

Tools that can be used by audit committees to perform an annual or comprehensive assessment of their auditor have been developed by CPA Canada and can be found at:

Overview Document

<http://www.cica.ca/focus-on-practice-areas/audit-and-assurance/enhancing-audit-quality/item78035.pdf>

Annual assessment

<http://www.cica.ca/focus-on-practice-areas/audit-and-assurance/enhancing-audit-quality/item78036.pdf>.

Comprehensive assessment

<http://www.cica.ca/focus-on-practice-areas/audit-and-assurance/enhancing-audit-quality/item78038.pdf>

**14. If an audit committee requests information on inspection findings in response to an audit proposal, what information can be provided?**

The audit firm can disclose that the firm is registered with CPAB and that the firm has agreed to voluntarily share inspection results as outlined in the Protocol. However, consistent with the principles of the Protocol, firm-specific inspection results should not be shared in responding to an audit proposal.

**15. If an RI does not have an audit committee, who should the inspection information be reported to?**

The information to be reported under the Protocol should be communicated to those charged with governance.