

January 24, 2014

Canadian Public Accountability Board  
900 – 150 York Street  
Toronto ON M5H 3S5

By email: [Consultation@cpab-ccrc.ca](mailto:Consultation@cpab-ccrc.ca)

Dear Sirs:

**Re: Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees**

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We thank you for the opportunity to respond to the Consultation Paper regarding the draft “Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees” (the “Paper”).

We support the overall objectives of enhancing audit quality and promoting improved communication between Audit Committees and audit firms, to support Audit Committees in their role in overseeing and evaluating the external auditor. We believe it is important for auditors and Audit Committee members to have open and substantive discussions concerning issues related to the audit, as this does contribute to the quality of both the audit and the financial reporting.

We would like to note 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, based in British Columbia, collectively audit approximately 800 reporting issuers, with most of those listed on the TSX Venture Exchange and the Canadian Securities Exchange. That letter outlined a number of concerns we had with the Draft Protocol and its use in practice, particularly in the Venture Issuer market. Those concerns continue to exist.

Our responses to the specific questions you have asked in the Paper are as follows:

**Question #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.**

The Protocol aims to enhance communication, and as noted in paragraph 16 of the Paper “Audit Committees of all Canadian RIs have the same responsibility under National Instrument 52-110 to oversee the work of the external auditor. As a result, this Protocol is proposed to be effective for all RIs in Canada”. However in our view it should be flexible to address the different needs of Audit Committees for Venture Issuers. The Canadian Securities Regulators acknowledge in National Instrument 52-110 that not all audit committees are created equal, as Audit Committee’s of Venture Issuers are not required to have members who are independent and financially literate. Accordingly the individual members may not have the technical expertise and

experience to appropriately consider and evaluate the information contained in a significant engagement finding. Unless the Securities Regulators mandate financial literacy requirements for Audit Committee members we do not believe there will be a wide-spread improvement in communication and oversight due to lack of experience and in many cases engagement on the part of these Audit Committees. It is our experience and view that the majority of Audit Committees would be interested in addressing only those findings that have resulted in the financial statements requiring a restatement. In those cases the Audit Committee would already be informed of the circumstances and rectification as the restatement is completed. As such, there would be no need for a communication under the Protocol.

**Question #2: Will the confidentiality of RI file specific 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 are concerned that the confidentiality of the file specific inspection findings shared under this Protocol will be difficult to maintain and enforce. Very few members of Audit Committees of our reporting issuer clients are members of professional organizations that are subject to professional codes of conduct. As such many individuals have neither the training nor experience to understand the confidentiality requirement, and are not subject to any sanctions should they violate it.

The Venture Exchange market, and particularly those companies based in Vancouver, have a significant number of both directors and management in common, as many individuals are involved with multiple companies. This will greatly increase the difficulty in maintaining confidentiality of information shared with Audit Committees, and could harm both the audit firms and CPAB. It should be noted that management and directors of many of these companies have previously expressed concern with the current level of regulatory oversight.

Due to the factors discussed above, it is our view that it would be very difficult to maintain the confidentiality of file specific findings shared under the Protocol. We would propose that the findings not be communicated to Audit Committees, as this is the only way to ensure confidentiality.

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

- We are also concerned the Protocol may alter the relationship between audit firms and CPAB. Audit firms and CPAB have worked together since 2004 and the relationship has generally been very cooperative, with the common objective of improving audit quality. The requirement to communicate significant findings to the Audit Committee would lead audit firms to be much more reluctant in accepting CPAB's view that certain findings are significant. We anticipate that this would increase the amount of time spent on CPAB inspections, both by the firm and CPAB, and would lead to increased costs with no corresponding benefit to audit quality.
- The draft Protocol also requires audit firms to provide Audit Committees with a copy of CPAB's annual Public Report. As CPAB currently publishes its annual report on its website, we believe this is sufficient to ensure that any individual who wishes to review the annual report can access the document.

We fully support CPAB in its mission to enhance audit quality, and do believe that CPAB has made a substantial contribution towards improving audit quality since its inception. However, given our concerns stated above, we do not agree that this Protocol, specifically the requirement to communicate significant findings to the Audit Committee, will further enhance audit quality and may in fact have additional costs.

Yours very truly,

*Smythe Ratcliffe LLP*

Chartered Accountants