



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

July 6, 2018

Mr. Jonathan Bravo  
International Organization of Securities Commissions (IOSCO)  
Calle Oquendo 12  
28006 Madrid  
Spain

**Re: IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality**

The Canadian Public Accountability Board (CPAB) is pleased to respond to the *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality* issued in April 2018.

CPAB is Canada's audit regulator, protecting the investing public's interests. As a world-class audit regulator focused on excellence, we deliver value to our various stakeholders through effective regulation and by promoting high-quality, independent public company auditing.

**General comments**

***1. Audit committees have an important role in supporting audit quality***

Audit committees play a critical role in creating the right environment for quality auditing and helping to build confidence in the integrity of financial reporting. We support IOSCO's objective to guide audit committees through a comprehensive good practices report.

We appreciate IOSCO's aim to develop good practices that are varied and flexible enough to be relevant and practicable for audit committees of different sizes and complexity. We encourage audit committees to use the report as a guide to implement good practices that fit their organizations and ultimately positively influence audit quality.

***2. We support the good practices outlined in the report***

As the role of audit committees continues to evolve, there is an increased need for good practice resources and guidance. We support the creation of a good practices report to assist in guiding audit committees to enhance audit quality. The list of proposed good practices in the report is a good starting point and is sufficiently comprehensive to cover a variety of key audit committee issues.

We agree with IOSCO's focus on good practices over specific procedures. This will allow audit committees to consider the unique nature of their organization and areas of audit risk when adopting good practices and apply them more effectively.

**3. *Audit Quality Indicators (AQIs) have significant potential to improve audit quality and should be included as a good practice***

Over the past two years CPAB has explored the use and value of AQIs with audit committees, management and auditors. AQIs have significant potential to positively impact audit quality.

We encourage IOSCO to consider including AQIs as a good practice for audit committees. AQIs result in a better understanding among management, the audit committee and the external auditor of their roles in the audit and responsibilities related to audit quality, and their expectations of others. When assessed alongside relevant qualitative information, AQIs provide insights about factors that may influence audit quality.

In collaboration with CPA Canada and the Institute of Corporate Directors, CPAB has developed an *Audit Committee Guide to Audit Quality*. This guide outlines a process to assist audit committees and management implement AQIs for the first time. To access the guide and learn more about AQIs, please [click here](#).

**Answers to specific questions**

Our responses to the specific questions posed in the report are included in the Appendix to this letter.

We appreciate the opportunity to provide input on the *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality*.

We would be pleased to discuss further any of the above comments.

Yours very truly,



Carol Paradine, CPA, CA  
Chief Executive Officer

## APPENDIX

QUESTIONS	
1.	<p>Do you agree that audit committees can have an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers (see Section 2.1)?</p> <p><i>We strongly agree that audit committee oversight of the auditor and financial management plays an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers.</i></p> <p><i>CPAB is focused on audit committee outreach through our stakeholder engagement and thought leadership activities. We meet regularly with audit committee members and provide information that can support directors in their oversight role.</i></p>
2.	<p>Do you have any comments on the background material on audit quality (see Sections 2.3 and 2.4)?</p> <p><i>We agree with the background material on audit quality.</i></p> <p><i>An important aspect of a quality audit is the commitment of financial management, the audit committee and the auditor to audit quality. The actions of each of these parties are essential to consistent and high quality financial reporting and audit.</i></p> <p><i>In our oversight of audit firms we are currently focused on working with the firms to ensure they have robust quality management systems that drive consistently high quality audits.</i></p>
3.	<p>Do you have any comments on the proposed description of the roles and responsibilities of audit committees and auditors (see Sections 2.5 to 2.7)?</p> <p><i>We agree with the description of the roles and responsibilities of audit committees and auditors. We also believe an important role of the audit committee is to oversee financial management to ensure the entity has appropriate resources and a system of internal controls to support high quality financial reporting.</i></p> <p><i>We also believe that the role of the audit committee includes ensuring the auditor has an appropriately independent mindset from management and is truly objective.</i></p>
4.	<p>Do you have any comments on the proposed good practices for the features of audit committees that may facilitate a committee in being more effective in promoting and supporting audit quality (see Section 3.2)?</p> <p><i>We agree with the comments on the proposed good practices for the features of audit committees that may facilitate a committee in being more effective in promoting and supporting audit quality. In the discussion of features of audit committees we recommend IOSCO consider including discussion of peer and self-assessment of audit committee members and considering whether the Board believes it is necessary to establish term limits to membership on the audit committee.</i></p>

5.	<p>Do you agree with the good practices for audit committees outlined in Sections 3.3 to 3.9?</p> <p><i>We agree with the good practices for audit committees outlined in Sections 3.3 to 3.9. We believe the list provided is a well-rounded and comprehensive guide that will assist a variety of audit committees.</i></p>
6.	<p>Do you have any additional suggestions on good practices to be adopted by audit committees (see Sections 3.3 to 3.9)?</p> <p><i>Over the past two years CPAB has worked with audit committees, financial management and auditors to pilot the use of audit quality indicators (AQIs). AQIs have significant potential to positively impact audit quality. We suggest that the use of AQIs be integrated as an important tool to support the good practices outlined in Sections 3.3 to 3.9.</i></p> <p><i>AQIs help audit committees, management and the auditor quantitatively measure aspects of the external audit. When assessed alongside relevant qualitative information, they provide insights about factors that may influence audit quality.</i></p> <p><i>Some common AQI objectives include improving general oversight of the audit, increasing the transparency of the audit approach, and providing better information for the purposes of evaluating the external auditor. These result in a better understanding among management, the audit committee and the external auditor of their roles in the audit and responsibilities related to audit quality, and their expectations of others.</i></p> <p><i>In the discussion of facilitating the audit process in Section 3.6 we also encourage consideration of good practices to invite non-finance management to attend and present at audit committee meetings to support improved communication with the audit committee.</i></p>
7.	<p>Would you suggest any other changes to the proposed good practices outlined in this report? If so, in what manner (see Sections 3.3 to 3.9)?</p> <p><i>We do not have any further suggestions to the proposed good practices outlined in this report.</i></p>
8.	<p>In some cases a good practice is introduced with the words “The audit committee should take reasonable steps to ensure that” and in other case the words “The audit committee should consider the extent to which”. Is the wording used for each good practice appropriate (see Sections 3.3 to 3.9)?</p> <p><i>We believe that the wording used for each good practice is appropriate.</i></p>

9.	<p>It is proposed to provide good practices at principles level and not to include detailed procedures to support those principles. Do you agree with this approach (see Sections 3.3 to 3.9)?</p> <p><i>We agree with this approach. Since audit committees vary in size and complexity, we believe there is no one-size-fit-all approach to good practice procedure. Providing good practices is meant to be a resource to audit committees, which may be best conveyed on a principle level. However, including example procedures can be useful.</i></p>
10.	<p>Given the differing governance structures for issuers in different jurisdictions, to what extent should any final good practices report deal with the roles of the governing board, audit committee and management in relation to financial reporting, systems and processes (see Section 3.6)?</p> <p><i>Audit quality depends on the collective effort and focus of all parties involved in financial reporting and audit including the audit committee, management and the auditor. We support the final good practices report including discussion of the roles of the governing board, audit committee and management.</i></p>
11.	<p>What frameworks, practices, methodologies, or tools have audit committees found to be helpful in evaluating the following:</p> <ul style="list-style-type: none"> <li>a) Professional skepticism of auditors;</li> <li>b) An auditor's commitment to audit quality;</li> <li>c) Whether an audit firm's culture supports audit quality;</li> <li>d) Whether an audit firm has or makes available during an audit an appropriate level of resources with appropriate skills and expertise; and</li> <li>e) Whether audit quality has been compromised by reduced audit fees?</li> </ul> <p><i>In our view, auditors must have a strong, ongoing, direct dialogue with the audit committee. Any processes the audit committee can implement to support this communication is important including one-on-one meetings between the auditor and audit committee chair prior to the formal audit committee meeting, auditor attendance for the full audit committee meeting and ongoing communication between meetings as issues arise.</i></p> <p><i>We believe several best practices outlined in the report are particularly useful in enhancing audit quality and can help to evaluate the items above. For example, inviting the auditor's experts to attend the audit committee meeting can provide audit committee members with additional information and comfort as to the overall quality of the audit.</i></p> <p><i>As noted in our response to Question #6, we also believe that Audit Quality Indicators are tools with significant potential to positively impact audit quality. We encourage audit committees to work with their auditor and financial management to integrate AQIs into their normal course activities to support their evaluation of the items noted above.</i></p>

<p><b>12.</b></p>	<p>Should the proposed report include a section mentioning the possibility of public reporting by audit committees on how they support audit quality? If so, should such reporting be described as “voluntary” or as a “good practice” for the majority of jurisdictions where there is no mandatory requirement? Should more detailed reporting criteria be provided in any final report (see Section 4.1)?</p> <p><i>The proposed report should include a section mentioning the possibility of public reporting by audit committees on how they support audit quality.</i></p> <p><i>Enhanced audit committee reporting on audit activities has the potential to improve audit quality. This additional disclosure may increase an audit committee’s accountability over the audit, improve consistency of execution and provide investors with increased confidence in processes used by the company.</i></p>
<p><b>13.</b></p>	<p>Are there any other comments that you have on the proposed good practices report and the material that may be included in any final report?</p> <p><i>We have no other comments on the report or its material.</i></p>