Enhancing Audit Quality: Canadian Perspectives – The Role of the Audit Committee in External Auditor Oversight

Summary of Responses to Discussion Paper and Conclusions

May 2013
Introduction

The Role of the Audit Committee Working Group (ACWG) issued a Discussion Paper in January 2013 setting out its views on the role of the audit committee in enhancing audit quality through its responsibilities of overseeing the external auditor. The ACWG consulted with stakeholders during the period of February-March 2013 to determine whether or not there is consensus and support for the views presented in the Discussion Paper.

This summary includes 17 responses to the Discussion Paper, categorized as below.

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<th>Category</th>
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<td><strong>Total responses</strong></td>
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The respondents are listed in Appendix 1.

In addition to the 17 respondents listed and referred to throughout this summary, the ACWG received one response that will not be published due to a request for confidentiality. While the contents of the confidential response are not referenced in this summary, the ACWG did consider the response in reaching its conclusions.
The ACWG considered the extent of responses it received and concluded that the responses were an adequate representation of interested parties, in particular because the two responses from the Provincial Institutes included the results of member surveys. Additionally, the Institute of Corporate Directors (ICD) hosted a webinar on the contents of the Discussion Paper, and followed up with a member survey to which 242 ICD members responded. The respondents to the ICD survey included 161 corporate directors, with 158 serving as members or chairs of audit committees. The ACWG was pleased with the strong response level from the director community obtained through the ICD survey given the importance of the director group as a stakeholder on this topic.

Please note: While excerpts from the ICD survey are noted below, this document does not attempt to provide a comprehensive summary of the ICD survey results.

There were various comments received and, on balance, the ACWG concluded that the majority of responses are supportive of the basic recommendations in its Discussion Paper. In some cases the ACWG did reconsider its views and some modifications were required.

Read the Discussion Paper and responses to it on the Canadian Institute of Chartered Accountants’ (now Chartered Professional Accountants of Canada) website.

This summary presents the following for each major topic of proposals and recommendations:

A. A brief overview of the nature of the proposals.
B. The ACWG’s preliminary conclusions on those proposals as set out in the Discussion Paper and the specific questions on which feedback was requested, as well as an analysis of the responses to the Discussion Paper on the proposals.
C. The ACWG’s conclusions based on the responses received.

The summary sets out the major proposals as follows:

Overseeing the Work of the External Auditor
Conducting a Comprehensive Review of the Audit Firm
Communication of Inspection Results
Public Commentary by the Audit Committee
Responses Included in this Summary (Appendix 1)
### Acronyms Used in this Summary

<table>
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<th>Acronym</th>
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<td>ACWG</td>
<td>The Role of the Audit Committee Working Group</td>
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<td>ARWG</td>
<td>Auditor Reporting Working Group</td>
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<td>CPAB</td>
<td>Canadian Public Accountability Board</td>
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<td>CPA Canada</td>
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<td>IWG</td>
<td>Auditor Independence Working Group</td>
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<td>SEC</td>
<td>US Securities and Exchange Commission</td>
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See [Appendix 1](#) for the acronyms and abbreviations of respondent names.
Overseeing the Work of the External Auditor

A. Overview of proposals relating to overseeing the work of the external auditor

The ACWG began with reviewing the current responsibilities of the audit committees of all Canadian reporting issuers under the Canadian Securities Administrators’ National Instrument 52-110, Audit Committees (NI 52-110), and articulated the activities considered to be best practices. The content in the Discussion Paper was intended to give more concrete guidance and examples of tasks to audit committees as they discharge their responsibilities regarding oversight of external auditors. In doing so, the ACWG highlighted important aspects of the audit relationship and the ideal interactions between various parties that should lead to effective and efficient financial reporting. The ACWG noted that its concept of the annual assessment may be very close to what certain audit committees currently perform. However, with significant variation in practice, there may be other audit committees for which the concepts represent a significant augmentation in efforts.

B. ACWG Views (paragraph 50 of the Discussion Paper) and Analysis of Responses

50. The ACWG identified activities that, to contribute to the enhancement of audit quality, audit committees should perform every year:

- Monitor the effectiveness of the financial reporting environment.
- Oversee the annual work of the auditors.
- Review the audit plan.
- Consider the impact of business risks on the audit plan.
- Assess the reasonableness of the audit fee.
- Monitor the execution of the audit plan, with emphasis on the more complex and risk areas of the audit.
- Review and evaluate the audit findings.
- Conduct an annual assessment of the auditors’ performance.

Do you agree that audit committees should perform these activities each year?

Are there any other activities that audit committees should perform each year to contribute to the enhancement of audit quality?

Do you agree it would be helpful to develop a document for Canadian audit committees similar to the US publication in Appendix B to assist in the execution of annual assessments of the external auditors?
Analysis of Responses

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Activities to be performed annually

▲ Overall, there is general agreement with the activities identified and the concept of the annual assessment.

▲ All responses acknowledge that audit committees regularly perform some, if not all, of the activities described.

▼ “(W)hile we believe that the activities described… should be performed throughout an annual audit cycle, we caution the ACWG that over-formalizing the activities to be performed could cause such activities to be viewed more as compliance procedures and thus reduce the effectiveness of the activities in enhancing audit quality.” (E&Y)

Additional activities that could be performed annually

▲ Suggestions of additional activities that audit committees should perform each year to contribute to the enhancement of audit quality were varied.

▼ Some comments were outside the scope of the ACWG, such as become involved with fraud prevention, review the performance of the Chief Financial Officer, etc.

▼ Of more relevance to the ACWG are the comments on clarifying that the ACWG addressed a small portion of the responsibilities and activities of the audit committee in the Discussion Paper.
  ▪ “We believe that the ACWG Paper would be strengthened if it could ensure that it is clear that the oversight of the external auditor was just one of the many aspects of the role of the audit committees that impact the quality and integrity of financial reporting.” (KPMG)
  ▪ The FEE recommends audit committees perform, “(a) self-assessment of its own work and functioning.” (FEE)
Development of a publication on annual assessment of the external auditor

▲ Thirteen responses support development of a Canadian document similar to the US example provided in Appendix B of the Discussion Paper.

▼ Concerns raised relate to the specificity (differentiating between the US Securities and Exchange Commission (SEC) and Canadian reporting issuer requirements, providing industry-specific content) and flexibility of the document as well as the importance of avoiding a checkbox mentality.

▪ “While we believe that a document would be helpful to audit committee members, a checklist type document should be avoided as the annual assessment should provide meaningful feedback … in order for improvements to be made in the following years.” (MNP LLP)

▪ At the ICAO, 79% of respondents agreed it would be helpful to develop a Canadian document. However, one comment questioned, “whether such a document will increase the legal liability of the audit committee members” and another was concerned it would, “lead to just another ‘checklist’ approach.” Another respondent “felt that for this to be successful, there must be an agreed-upon evaluation framework.” (ICAO)

▪ In supporting development of a Canadian document, it was suggested, “it would be helpful to have this document scalable to smaller issuers.” (PwC)

▪ “We believe it is important that any document that might be developed to assist audit committees… should be scalable for different sizes and levels of complexity of issuers and strive to provide concrete evaluation criteria so that audit committees can measure the quality of audit services they are being provided.” (E&Y)

Other comments about annual assessments

▲ Of the 17 responses, nine commented on scalability. Comments on the unique nature and needs of audit committees of smaller reporting issuers highlighted:

▼ the potential extension of activities from current state;

▼ the applicability in the design of any Canadian document;

▼ the extent of financial and audit literacy of audit committee members; and

▼ acknowledged the overall reduced availability of CPAB inspection results.

▲ Respondents noted that, while supportive of the annual assessment concept and other recommendations in the Discussion Paper, it is appropriate to be particularly sensitive to the impact on audit committees of smaller reporting issuers.

▼ “Scalability in the Canadian environment is particularly important due to the large number of small issuers that could pose unique challenges to the resources of the audit committee … (I)t is critical to ensure that audit committees have appropriate support or resources, and enhanced education, training and tools to effectively implement these recommended processes.” (Deloitte)

▼ “We are concerned that the reality for many audit committees is that the ideal set of annual activities described in the discussion paper may be impractical or not scalable to the size of the entity.” (E&Y)
In supporting development of a document containing guidance for Canadian audit committees, IFAC cautioned that, “like all guidance documents of this kind, it is important that the document is tailored to the relevant jurisdiction. For example, consideration would need to be given to how a guidance document might need to be structured to make it appropriate for use for issuers of different size, in particular smaller companies; a large number of which are operating in Canada.” (IFAC)

When supporting its rationale for not supporting legislating the comprehensive review, MNP LLP noted, “the guidance is being developed to address best practices and should allow for self-scaling in relation to the size and complexity of an entity’s operations.” (MNP LLP)

C. ACWG Conclusions

The overall support from respondents indicates the activities identified by the ACWG for the annual assessment are appropriate.

Essentially all respondents advocated greater guidance to assist audit committees.

The comments related to the development of the Canadian document(s) for audit committees will be passed along to the committee formed to draft that tool, with emphasis on customization for audit committees of smaller and less complex reporting issuers.

The ACWG concludes that its views relating to activities that audit committees should perform every year when overseeing the audit work of the external auditor, summarized in paragraph 50 of the Discussion Paper, do not need to be amended.
Conducting a Comprehensive Review of the Audit Firm

A. Overview of proposals relating to conducting a comprehensive review

The concept of performing a comprehensive review at least once every five years was proposed in contrast to the alternatives of mandatory firm rotation and mandatory tendering. The comprehensive review would be of greater depth and breadth than an annual assessment. The ACWG has suggested that the comprehensive review would include assessing multiple factors such as:

▲ safeguards against institutional independence familiarity threats;
▲ transparency of communications from the auditor, particularly with respect to resolving any controversial accounting or audit issues;
▲ manner in which the audit firm ensures professional skepticism is exercised; and
▲ quality and relevance of thought leadership shared by the auditor.

B. ARWG Views (paragraphs 73, 74, 76 and 77 of the Discussion Paper) and Analysis of Responses

73. The ACWG concurs with the consensus reached by the IWG that audit committees should conduct a mandatory comprehensive review of the external audit firm at least once every five years. Such comprehensive reviews will be considerably more rigorous than the annual assessments of the auditor’s work, and:

▲ Audit committees should use the comprehensive reviews to make recommendations on retaining the present audit firm or engaging another firm.
▲ Audit committees should disclose the process they have undertaken and the basis for their recommendations.

74. The comprehensive review would have a broader scope than merely addressing the institutional familiarity threat; it also offers audit committees the significant benefits of augmenting their annual assessments and focusing on how their audit firm ensures that its audits are of high quality, including ensuring that the auditors have exercised appropriate skepticism, as well as permitting audit committees to better evaluate the continuous improvement culture of the audit firm.

...
76. The ACWG recognizes education, guidance and tools to be important implementation considerations and recommends that such resources be developed.

77. Audit committees are encouraged to adopt the comprehensive review process. The ACWG acknowledges that it may be beneficial for the CSA to modify securities regulation to ensure timely and consistent implementation of comprehensive reviews.

- Do you agree with the recommendation that comprehensive reviews of external audit firms, on which retention recommendations will be based, be conducted at least every five years?

- Do you believe the comprehensive review should be made a requirement under securities legislation?

- Do you agree that it would be helpful to develop a document to assist Canadian audit committees in executing the comprehensive reviews of external auditors? If so, please share any suggestions on what guidance audit committees would find helpful.

- What needs do you identify for resources, education, guidance and tools? What other implementation concerns do you have?

Note: Paragraph 75 and the conclusions thereon are discussed below in the section on public commentary by the audit committee.
Analysis of Responses

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Concept of a comprehensive review

▲ Of the 17 responses, 14 explicitly address the concept of the comprehensive review.

▲ Overall, there is support for the comprehensive review concept, as noted in 12 of the responses, and comments received are congruent with the views of the ACWG.

▼ “Comprehensive reviews will be helpful to the audit committee’s oversight of the performance and independence of external auditors.” (IIA)

Scope and frequency of conducting the comprehensive review

▲ Several comments received relate to the frequency of conducting the comprehensive review.

▼ The five year requirement was questioned as being too brief a period; the ACWG was encouraged to consider a longer time period. (MNP LLP, ICD)

▼ A “comply-or-explain” regime was proposed to give an audit committee reprieve in a year of a significant event (such as a merger and acquisition transaction). (Deloitte)

▼ Forum members suggested, “[t]hree years, rather than five, would be more appropriate.” (ICABC Forum)

▲ While voicing overall support of the comprehensive review process, concern was raised over the appropriateness of determining the scope of the review by the audit committee chair meeting with a senior partner of the audit firm. “… from a public perception perspective, the involvement of the audit firm in these early stages would potentially have observers of the process questioning the objectivity of the review and whether it is an appropriate way to promote and enhance auditor independence and audit quality.” (IFAC)

▲ Regarding implementation concerns, KPMG concurred with “the importance of ‘audit literacy’ on the audit committee.” (KPMG)
Survey results were mixed.

Results from the ICAO survey in response to the recommendation that comprehensive reviews of external audit firms, on which retention recommendation will be based, be conducted at least every five years were varied: 60% yes / 11% unsure / 29% no

The ICABC Forum members had mixed views on whether a comprehensive review should be conducted at least every five years, with the majority (63%) disagreeing. It noted potential for audit committees to use the threat of comprehensive review to exact lower audit fees, which could reduce audit quality.

The ICD Roundtable supported the comprehensive review as the preferable alternative to either mandatory tendering or mandatory audit firm rotation. However, it proposed greater emphasis on the current annual assessment process with, “enhanced guidance and tools for audit committees,” believing, “[a] rigorous annual assessment eliminates the need for, and is a more effective process than, a mandatory comprehensive review.” (ICD Roundtable)

KPMG raised the point that, “institutional familiarity can also be a benefit, particularly for the audits of large complex organization.” The response noted concern over the current language in the Discussion Paper that suggests institutional familiarity would be presumed to be a risk. (KPMG)

Dr. Jamal perceived an internal inconsistency in balancing the concerns of familiarity threat (paragraph 52) with the need to maintain continuity in engagement team members (paragraph 70) and questions, “Is it familiarity or inexperience that makes an auditor ineffective? What does the regulator have to say about the balance between these two concerns?” (Jamal)

Whether comprehensive review should be mandated in securities legislation

There were mixed views on the recommendation that the comprehensive review should be mandated by securities legislation. The following are nine responses that commented on securities legislation:

Deloitte and IIA support the comprehensive review’s inclusion in securities legislation;
PwC, E&Y, KPMG and IFAC neither object to nor support its inclusion;
ICAO survey reported the following responses to including 50% yes / 17% unsure / 33% no;
63% of ICABC Forum does not support mandating the comprehensive review; and
MNP LLP does not support mandating the comprehensive review.

There was common concern for ensuring consistency, with less concern as to the official forum used to mandate the execution. Specific commentary received on this issue included the following:

“We believe that the comprehensive reviews should be a requirement under securities legislation to ensure timely and consistent implementation…” (Deloitte)

“We do not object to the recommendations issued by the ACWG being adopted in securities regulation through National Instrument 52-110 Audit Committees (NI 52-110) in order to ensure consistency.” (PwC)
“...we believe the requirement should be implemented by means that will ensure consistent application of the comprehensive review process across issuers regardless of whether the requirements are mandated by legislation or other rules or guidelines applicable to issuers.” (E&Y)

“The decision to make the comprehensive review a requirement under securities legislation will depend on the manner in which other measures aimed at promoting and enhancing audit quality are addressed. That is, whether it is part of a package of requirements that are embodied in legislation, a series of best practice recommendations, or some other type of arrangements.” (IFAC)

Development of a publication on performing a comprehensive review

Consistent with the feedback received supporting development of a document to assist with the annual assessment; the Discussion Paper’s respondents were highly supportive of development of a document to assist with the comprehensive review.

The majority – 58% – of ICD survey respondents selected the comprehensive review as the most cost-effective solution for Canada to address the independence concerns raised by international regulators. Similarly, 41% moderately agree and 32% strongly agree, for total support of 73% of the ICD Survey respondents, that the proposed periodic comprehensive review is a cost effective solution to address familiarity threats to the audit firm’s independence and addresses the independence concerns raised by international regulators.

Comments contain a variety of insights and suggestions, including a range of concerns.

Respondents noted, “[i]t’s still resource expensive,” and it is, “hard to say if it is cost effective when we don’t know what would be required and therefore how much it would cost.” One suggested, “[m]andatory audit firm rotation would force the issue…” (ICD survey)

Several of the comments pertained to the guidance for audit committees, which support the view of the ACWG that development of a tool for Canadian audit committees would be helpful.

“Enhanced guidance and tools would also help,” and, “[t]ools will be required to help with the periodic review,” suggests that audit committees would be more effective if better equipped. (ICD survey)

C. ACWG Conclusions

Overall, the feedback indicates support for the ACWG’s proposed comprehensive review.

The ACWG reconsidered the recommended frequency of “at least once every five years,” and believes its proposal remains appropriate.

The ACWG discussed the “comply-or-explain” proposal and noted that the additional work effort required in years of, for example, merger and acquisition transactions, should not detract from the evaluation of external auditors and audit quality, and has not amended its conclusions as a result. However, it is the expectation of the ACWG that, to the extent the comprehensive review becomes an enforceable requirement, the regulator could permit relief in extenuating circumstances.

The concept of institutional familiarity as a potential threat and also a potential benefit, depending on the circumstances, was discussed. The ACWG believes the language in the Discussion Paper was sufficiently clear in its reference to the instances where it becomes a potential threat, but acknowledges the comments received reflect important views.
Although there was mixed feedback on whether or not the comprehensive review should be required under securities legislation, the ACWG maintains its position in suggesting the CSA consider incorporating it in regulation. The ACWG believes this will encourage the CSA to contemplate including mandatory comprehensive review on a future agenda.

The ACWG reconsidered its conclusions in light of the above and does not propose changes to paragraph 77.

Throughout its discussions, the ACWG noted the lack of empirical evidence surrounding audit quality and improvement initiatives. The ACWG supports the continued involvement of CPA Canada and CPAB in engaging a sample of audit committees to discuss their experience in using the tools developed and to assess the resulting impact on audit quality. This would provide an opportunity for users of the tool to provide feedback on the practical application, with potential for improvements to the guidance in response to the audit committee experience. It is hoped the Canadian experience can be used to create tangible evidence of a correlation between audit committee efforts as promoted by the EAQ initiative and audit quality.

The ACWG concludes that the following views relating to comprehensive review of the audit firm, expressed in paragraphs 73, 74, 76 and 77 of the Discussion Paper do not need to be amended:

- Audit committees should conduct a mandatory comprehensive review of the external audit firm at least once every five years.
- The comprehensive review would have a broader scope than merely addressing the institutional familiarity threat.
- Education, guidance and tools are important implementation considerations.
- Audit committees are encouraged to adopt the comprehensive review process.
- It may be beneficial for the CSA to modify securities regulation to ensure timely and consistent implementation of comprehensive reviews.
Communication of Inspection Results

A. Overview of proposals relating to communication of inspection results

CPAB conducts inspections of the firms over which it has oversight responsibility. CPAB’s inspection work includes reviewing parts of selected individual audit files to evaluate whether audit firm methodologies and processes drive consistent high quality execution of audits. Following each inspection, CPAB provides the firms with a private report containing findings on their quality control processes, individual file review findings, recommendations for improvement and other observations.

Currently, the results of CPAB’s individual file and firm inspections are not shared outside CPAB and the audit firm. It is the view of the ACWG that the ability of audit committees to oversee and evaluate their auditors is hampered by their current lack of access to CPAB inspection insights. The ACWG proposed that audit committees receive select information from CPAB’s inspection results and proposed a subcommittee be formed to develop a protocol, with input from affected stakeholders, for such communication.

B. ACWG Views (paragraph 94 of the Discussion Paper) and Analysis of Responses

94. To facilitate the performance of the annual assessment and the mandatory comprehensive review, the ACWG recommends that CPAB and the audit firms it regulates develop a protocol for increasing the information made available to audit committees.

Do you agree that components of the CPAB inspection findings should be communicated to audit committees to facilitate their comprehensive reviews?

What elements of the inspection results do you believe should be communicated?

Do you believe inclusion of such a protocol in the Participation Agreement is appropriate?
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Communicating inspection findings to the audit committee

▲ Of the 17 responses, 14 addressed sharing CPAB inspection results; all 14 were supportive of increasing transparency through sharing certain information.

▼ “… we are fully supportive of the auditor sharing the results of CPAB inspection findings on individual clients with the audit committees on a confidential basis.” (PwC)

▼ “We support the communication of the company specific CPAB inspection findings to audit committees in order to facilitate their comprehensive reviews and annual assessments.” (Deloitte)

▼ “IFAC supports, in principle, the view that relevant components of inspection findings should be communicated to audit committees to facilitate the performance of their responsibilities on an ongoing basis…” (IFAC)

▲ Some supportive responses included concerns, caveats, and/or conditional support. Many of these comments are consistent with the concerns voiced during the ACWG’s discussions.

▼ “We are supportive of discussions regarding ways to increase transparency with an end result of enhancing audit quality, but we need to fully consider the risks associated with this transparency for the audit firms, audit regulators and the audit clients.” (Deloitte)

▼ “We note that guidelines will need to be developed to ensure consistency of inspection results reported.” (PwC)

▼ Having familiarity only with historic CPAB reports, there was concern that, “[t]he CPAB report language and tone is very negative and does not accurately reflect the real situation.” (ICABC Forum)

▼ “Any protocol that is developed should include consideration of how the details of any findings that are communicated to the audit committee related to the audit firm will remain confidential.” (E&Y)
“We also believe that it should be the firm who is responsible for communicating results of CPAB inspections with clients, not CPAB, and audit committees need to be educated on CPAB’s role and the process they undertake when performing inspections, along with the limitations of their inspections.” (MNP LLP)

After noting instances where it would be helpful for audit committees to have insights from the inspection findings, “[o]n the other hand, it is not necessary for the audit committee to have access to all the results of professional inspections since members do not necessarily have the expertise to judge the importance of the findings.” (Quebec Auditor General)

**Elements of inspection results to be communicated**

▲ Few responses commented on what specific information should be shared, with two emphasizing that communication should be between the audit firm and the audit committee, many raising confidentiality concerns, and others reiterating the importance of flexibility in the communication.

▼ “We believe that the elements of the inspection results that are directly applicable to the audit engagement should be communicated. Any applicable guidance or rules should be sufficiently flexible to ensure that the communication and discussion is complete, but fits the particular circumstances of the engagement.” (KPMG)

**Other comments**

▲ The ICD Roundtable proposed that there be direct communication between CPAB and the audit committee.

▼ “The ICD Roundtable believes that the most beneficial process for audit committees would be for CPAB to summarize for the audit committee CPAB’s material findings regarding the issuer’s audit and any systemic gaps in the audit firm’s processes, procedures and policies. The ICD Roundtable is not supportive of a model where the audit firm provides the audit committee with a summary…. regardless of the suggestion that CPAB would subsequently review the completeness of such reporting. The ICD Roundtable believes that CPAB should be required to report directly to the audit committee to assist the audit committee in conducting its annual assessment.” (ICD Roundtable)

▲ Responses from two provincial institutes included in the 14 counted as supportive above included results of member surveys. Survey responses to the question on communicating components of CPAB inspection findings were as follows:

▼ 50% yes / 25% unsure / 25% no (44 responses total) (ICAO)

▼ 54% yes / 23% unsure / 23% no (number of responses unknown) (ICABC Forum)

▲ The ICD survey indicated strong support on development of a protocol for sharing inspection information with audit committees.

▼ 40% moderately agreed and 44% strongly agreed (for combined support of 84%) with developing a protocol to establish the process for sharing inspection information with audit committees and to articulate what information audit committees can expect to receive. (ICD survey)

▼ 40% moderately agreed and 45% strongly agreed (for combined support of 85%) that audit committees should be involved in developing the protocol to share inspection information with audit committees. (ICD survey)
C. ACWG Conclusions

▲ There is general support for the ACWG’s recommendation on sharing certain information from CPAB inspection findings with audit committees.

▲ The ACWG discussed the view of the ICD Roundtable supporting direct communication from CPAB to the audit committee and notes that the comments driving this position pertain to concerns over the audit committee receiving unbiased communication.

▲ In this respect, the ACWG’s Discussion Paper included the recommendation for a validation mechanism whereby CPAB would review the communications prepared by the firms for audit committees, giving CPAB the opportunity to confirm the appropriateness of the tone and context in the firm’s delivery of the message. However, the objective of this is not inconsistent with satisfying the concerns raised by the ICD Roundtable.

▲ The ACWG notes that none of the other respondents proposed this arrangement and does not believe that any change to recommend direct communication between CPAB and audit committees is warranted.

▲ The ACWG concluded it would not be appropriate to reference inclusion of the protocol in the rules of the CPAB Participation Agreement because the feedback received was inconclusive on this point.

▲ The ACWG concludes that the view relating to communication of inspection results, expressed in paragraph 94 of the Discussion Paper, does not need to be amended:

▼ To facilitate the performance of the annual assessment and the mandatory comprehensive review, the ACWG recommends that CPAB and the audit firms it regulates develop a protocol for increasing the information made available to audit committees.
Public Commentary by the Audit Committee

A. Overview of proposals relating to public commentary by the audit committee

The ACWG was asked by the ARWG to consider audit committee commentary. The ARWG noted, in its discussion of auditor commentary, that certain proposals, “would make the audit committee (and not the auditor) responsible for providing additional information to shareholders as they may be a more effective solution than auditor commentary.” The ACWG considered public commentary by the audit committee on various topics, including the comprehensive review. Consistent with the IWG, the ACWG suggests that the audit committee disclose when it has performed a comprehensive review, the process it undertook, and the rationale underlying its recommendation to the board. The ACWG Discussion Paper recommends this disclosure could be incorporated into existing corporate governance communications.

B. ACWG Views (paragraphs 75 & 98 of the Discussion Paper) and Analysis of Responses

75. Specifically, the ACWG suggests that audit committees summarize the results, findings and conclusion of the review in support of their recommendation for the nomination of an external auditor. This summary should be included in the public disclosure documents of the entity in the year in which the comprehensive review is carried out.

... 

98. The ACWG recommends that audit committees publicly report on their comprehensive reviews, describing the process undertaken and the conclusions reached, and that this disclosure be mandated by the Canadian Securities Administrators and other regulators.

Do you agree that audit committees should report on comprehensive reviews?

Do you agree the disclosure requirement should be mandated through securities legislation?

Do you believe there should be additional audit committee commentary beyond the report on the comprehensive review?
Analysis of Responses

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Support Proposal</th>
<th>Oppose Proposal</th>
<th>No Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting firms</td>
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<td>2*</td>
</tr>
<tr>
<td>Provincial auditor general</td>
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<tr>
<td>Directors group</td>
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</tr>
<tr>
<td>Provincial institute</td>
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<td>1**</td>
<td></td>
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<tr>
<td>International responses</td>
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<td><strong>Total responses</strong></td>
<td><strong>10</strong></td>
<td><strong>1</strong></td>
<td><strong>6</strong></td>
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</table>

* One response addressed public reporting by the audit committee, but questioned what it would look like and to whom the report would be made available, rather than providing a supportive or unsupportive opinion.

** 50% of the ICABC Forum agreed that the audit committee should report on comprehensive reviews. However, they expressed concern over what would be reported. 63% disagreed with the recommendation to mandate disclosure under legislation.
Audit committee reporting on the comprehensive review

▲ Of the 17 responses, 12 commented on audit committee reporting.

▲ Overall, there is support for public disclosure by the audit committee on performing the comprehensive review. 11 responses indicated support for public reporting by the audit committee.

▼ “Subject to any confidentiality concerns, IFAC agrees that audit committees should report publicly on the comprehensive reviews it performs.” (IFAC)

▼ “We agree that audit committees should report on comprehensive reviews.” (Temple)

▼ “The disclosure could be incorporated into already existing Corporate Governance communications to shareholders, such as the Proxy Statement.” (Deloitte)

▼ “We believe that the requirement to have audit committees report when they have conducted a comprehensive review of the audit firm, the process they undertook and the rational underlying their recommendations serves as a positive incentive for audit committees to expend appropriate effort in completing the review.” (E&Y)

▼ The ICD Roundtable supports public disclosure by the audit committee, provided it is, “limited to describing the process it followed and the audit committee stating whether it is maintaining the audit firm or not as a result of such review.” (ICD Roundtable)

▲ Of those supporting public disclosure, three (Deloitte, IIA, PwC) also support the disclosure becoming a requirement under securities legislation, while others (E&Y, IFAC) did not object to it becoming legislated.

▼ “We also support incorporating these disclosure requirements in securities legislation as the process will further increase transparency.” (Deloitte)

▲ The ICAO survey results indicated support for audit committees reporting on comprehensive reviews: 61% yes / 7% unsure / 32% no. However, only 47% felt that disclosure requirements should be mandated (18% unsure / 35% no), with comments from respondents that, “informed and effective oversight is preferable to legislation.” (ICAO)

▲ ICABC forum members noted, “[t]his type of communication can tend to become boilerplate disclosure which would not be helpful to investors,” and other respondents commented, “[t]hat very few readers would pay attention to the audit committee’s report.” (ICABC Forum)

▲ Confidentiality and liability concerns were also raised, such as the following:

▼ “While we are supportive of the public reporting on comprehensive reviews, we believe that there should be certain parameters… to protect the confidentiality of the CPAB inspection process.” (E&Y)

▼ “We are supportive of audit committee’s reporting on the results of their comprehensive review, and do not object to the requirement being adopted into NI 52-110 to ensure consistency and transparency.” (PwC)

▼ “[C]onsideration should be given to the enhanced liability this could create for audit committee members.” (ICD Roundtable)
Audit committee reporting beyond the report on comprehensive review

▲ While the ACWG proposed that public commentary by audit committees beyond the report on the comprehensive review was not necessary, the question was asked to determine whether stakeholders supported this view.

▲ Of the 11 responses that addressed audit committee reporting, eight were opposed to additional reporting while three supported additional reporting.

▲ The following respondents did not support additional reporting by the audit committee:

▼ The IIA, in noting its disagreement with additional reporting by the audit committee, suggested that additional reporting by management be explored first.

▼ The ICAO survey respondents answered in the following manner: 44% no / 37% unsure / 19% yes. Some respondents commented that, “the disclosure on the comprehensive review is sufficient, or that financial reporting is already too cumbersome and this will just add to it.” (ICAO)

▼ The ICABC Forum survey reported 88% of respondents do not believe additional reporting by the audit committee is needed.

▲ The following respondents support additional reporting by the audit committee:

▼ Increased transparency about the work performed by the audit committee would “further facilitate the assessment of the efficiency of the audit committee. … In relation to this matter, it is essential to enhance fruitful communication and avoid boilerplate [language].” (FEE)

▼ “… [A]dditional commentary could allow audit committees to discuss the results of the audit and demonstrate their understanding of the most significant issues and judgments. This will demonstrate that they have engaged in, debated and understood the relevant issues and judgments in the financial statements.” (Deloitte)

▼ “[T]he audit committee should report annually on its full mandate in the MD&A.” (Quebec Auditor General)
C. ACWG Conclusions

▲ There is support for the ACWG’s views on audit committees reporting on their comprehensive reviews, with less support for mandating the disclosure requirement under securities legislation. Given the range in views regarding legislation of the disclosure requirement, the ACWG has decided to remove that element from its recommendation.

▲ The ACWG acknowledges the confidentiality concerns and liability, noting that guidance regarding content of the disclosure, largely to limit the content of the disclosure, would be an important aspect of this recommendation.

▲ The responses regarding additional reporting by the audit committee sufficiently support the view of the ACWG as written in the Discussion Paper.

▲ The ACWG concludes that, after consideration of feedback received, the view relating to public commentary by the audit committee, expressed in paragraphs 75 and 98 of the Discussion Paper, can be summarized as follows:

▼ The ACWG recommends that audit committees publicly report on their comprehensive reviews by summarizing the process, findings, results and conclusion reached for their nomination of an external auditor. This information should be included in the public disclosure documents of the entity in the year in which the comprehensive review is performed.
## Appendix 1: Responses Included in This Summary

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Accounting firms</th>
<th>Provincial Auditor General</th>
<th>Accounting body</th>
<th>Academic</th>
<th>Directors group</th>
<th>Provincial institute</th>
<th>International responses</th>
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Acronyms and Abbreviations:

AFM: Netherlands Authority for Financial Markets
E&Y: Ernst & Young LLP
FEE: Federation of European Accountants
Hall: Gordon Hall, FCIA ICD.D
ICABC: Institute of Chartered Accountants of British Columbia
IFAC: International Federation of Accountants
IIA: Institute of Internal Auditors of Canada
ICAO: Institute of Chartered Accountants of Ontario
ICD Roundtable: Institute of Corporate Directors Roundtable
ICD Survey: Institute of Corporate Directors members’ survey
Jamal: Dr. Karim Jamal, PhD FCA
Temple: Temple Hotels Audit Committee