



LE CONSEIL CANADIEN SUR LA REDDITION DE COMPTES PUBLIE SON SONDAGE AUPRES DES INTERVENANTS DES CABINETS D'EXPERTS- COMPTABLES PARTICIPANTS

Depuis sa création, le Conseil Canadien sur la reddition de comptes (CCRC) a évolué, depuis son départ arrêté jusqu'à l'état actuel et progressif des choses, par l'embauche de spécialistes en la matière et l'élaboration d'une méthodologie d'inspection qu'il estime a contribué à améliorer la qualité des audits et ajouter de la valeur aux cabinets d'audit des émetteurs assujettis.

Afin d'aider le CCRC à comprendre son rendement à ce jour et développer des moyens pour continuer à générer de la valeur, le CCRC a retenu les services de The Strategic Counsel, une firme d'étude de marché, afin de mener un sondage auprès cabinets d'audit participants.

Dans l'ensemble, les répondants des cabinets d'audit perçoivent de façon positive le rôle du CCRC et sa contribution à la qualité de l'audit. Le CCRC reçoit une cote élevée sur ses performances actuelles, et les répondants voient une nette amélioration dans l'approche et l'impact du CCRC au cours des dernières années. Les équipes d'inspection du CCRC sont décrites comme professionnelles, approfondies, rigoureuses et, pour la plupart, le processus est considéré comme efficace. Les résultats du sondage ont indiqué que le CCRC pourrait améliorer la qualité des constatations découlant de son processus d'inspection et de ses recommandations aux cabinets d'audit.

Lorsque questionné sur comment le CCRC pourrait ajouter de la valeur, beaucoup de répondants estiment que le CCRC pourrait faire davantage pour accroître la confiance du public dans l'intégrité de l'information financière au Canada. En particulier, les cabinets d'audit recommandent que le CCRC assume un rôle plus actif dans l'éducation des administrateurs de sociétés, des comités de finance/vérification ainsi que des cadres supérieurs /exécutifs des sociétés ouvertes.

Les résultats du sondage sont joints pour votre examen et considération.



The Strategic Counsel



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES



A Presentation to the Canadian Public Accountability Board

**Stakeholder Research:
Findings from a Baseline
Survey of & Interviews with
Audit Firms**

February 15th, 2011

Gregg, Kelly, Sullivan & Woolstencroft:
The Strategic Counsel

www.thestrategiccounsel.com

21 St. Clair Avenue East
Suite 1100
Toronto, Ontario
M4T 1L9
Tel 416 975-4465
Fax 416 975-1883

60 George Street
Suite 205
Ottawa, Ontario
K1N 1J4
Tel 613 236-0296
Fax 613 236-1290

Objectives & Methodology

Study Objectives & Research Methodology

- ◆ Key objectives:
 - Gauge levels of awareness and familiarity with CPAB;
 - Assess perceptions of CPAB’s performance (overall and in specific areas);
 - Identify areas of strength and weakness, and provide suggestions for improvements to the inspection process;
 - Explore ways and means in which CPAB and the audit firms could work more collaboratively; and
 - Establish performance benchmarks.
- ◆ A hybrid methodology including an online survey of engagement partners (and managing partners from non-annually reviewed firms) and fifteen one-on-one in-depth executive-style interviews (by telephone) of the managing partners of the annually reviewed firms.
 - The study was completed between Nov. 8th and Dec. 16th, 2010
 - The online survey: 329 potential respondents were e-mailed a link (in English and French), with an option to respond electronically or in hard copy.
 - Response rate: 39%, representing 38 of a possible 125 firms
 - The in-depth interviews: 15 interviews (Managing Partners and CEOs of Big 4 and Large Annual firms) were conducted
 - The interview guide was adapted from the online survey and comprised mostly open-ended questions on the major topics/themes. This format permitted interviewees to provide rich commentary and elaborate on perceptions of CPAB, its value and performance.
 - Participation rate: 100%

Survey Response Rates

INTERVIEWS	Total Number in Sample	Completes	Incompletes	Non-Responders
Annually Reviewed Firms – CEO/Managing Partner (CEO/MP)	15	15 (100%)	0 (0%)	-
ON LINE SURVEYS	Total Number in Sample	Completes	Incompletes*	Non-Responders**
Big 4 (B4) - Annually Reviewed	119	82 (69%)	37 (31%)	-
Large Firms (LA) - Annually Reviewed	33	17 (52%)	16 (48%)	-
Other Local (O) - 2-3 years	177	29 (16%)	13 (7%)	135 (77%)
TOTAL	329	128 (39%)	66 (20%)	135 (41%)

* Incompletes denotes those who opened the link but did not subsequently submit a completed survey.

** Non-responders denotes those who did not open the link.

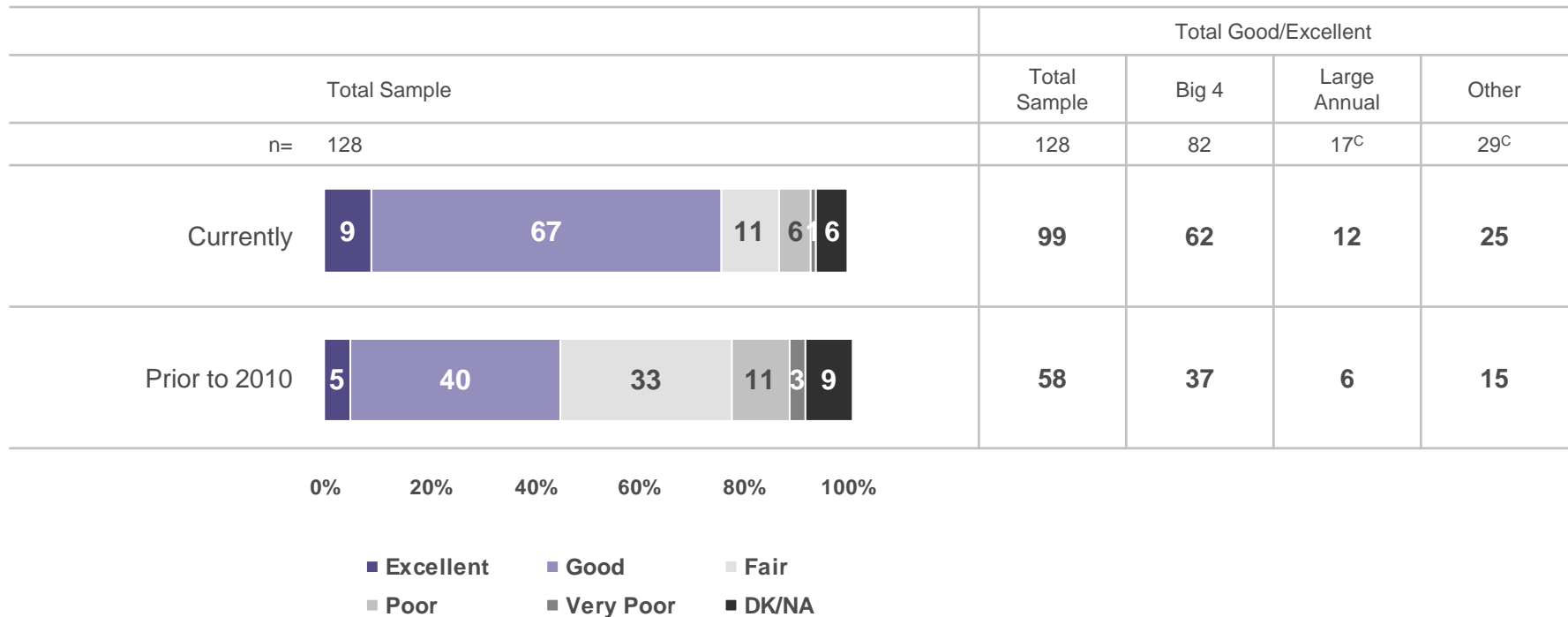
Interview Results
from CEOs and
Managing Partners
(Annually Inspected Firms)

CEO/Managing Partner Perspectives

- ◆ CPAB is viewed as experienced and professional
- ◆ CPAB's performance is generally rated as effective as an audit regulator with improvement in performance in the past year most notably
 - Focus on critical risk areas/big picture which had a positive impact on the EFR points raised
 - Better communication and enhanced exchange of information
 - Higher calibre of inspectors with more relevant/practical experience
- ◆ Most viewed value added in terms of the cost/benefit with the inspections taking considerable time and resources - including having to re-educate the team when there was a lack of continuity
- ◆ Concern that many are raising the bar and setting standards through the inspection process
- ◆ Most are of the view that audit quality was not a problem in Canada the way it was in the U.S. but did acknowledge CPAB's existence has helped quality.
- ◆ Concerned that information requested is not relevant to the inspection - HR files, compensation, etc
- ◆ Many wanted CPAB to continue to focus on improving industry knowledge
- ◆ Most wanted CPAB to increase their public profile outside the audit firms

On-line Survey
Results
Performance

CPAB receives strong ratings on its overall performance - an improvement on stakeholders' ratings pre-2010



Q. 3 Overall, how would you rate CPAB's performance as an effective regulator, both at the present time and prior to 2010?

Base: Total sample

c Caution, small base size

Numerous changes in CPAB's approach have been noted ... ratings on specific aspects of the inspection process vary

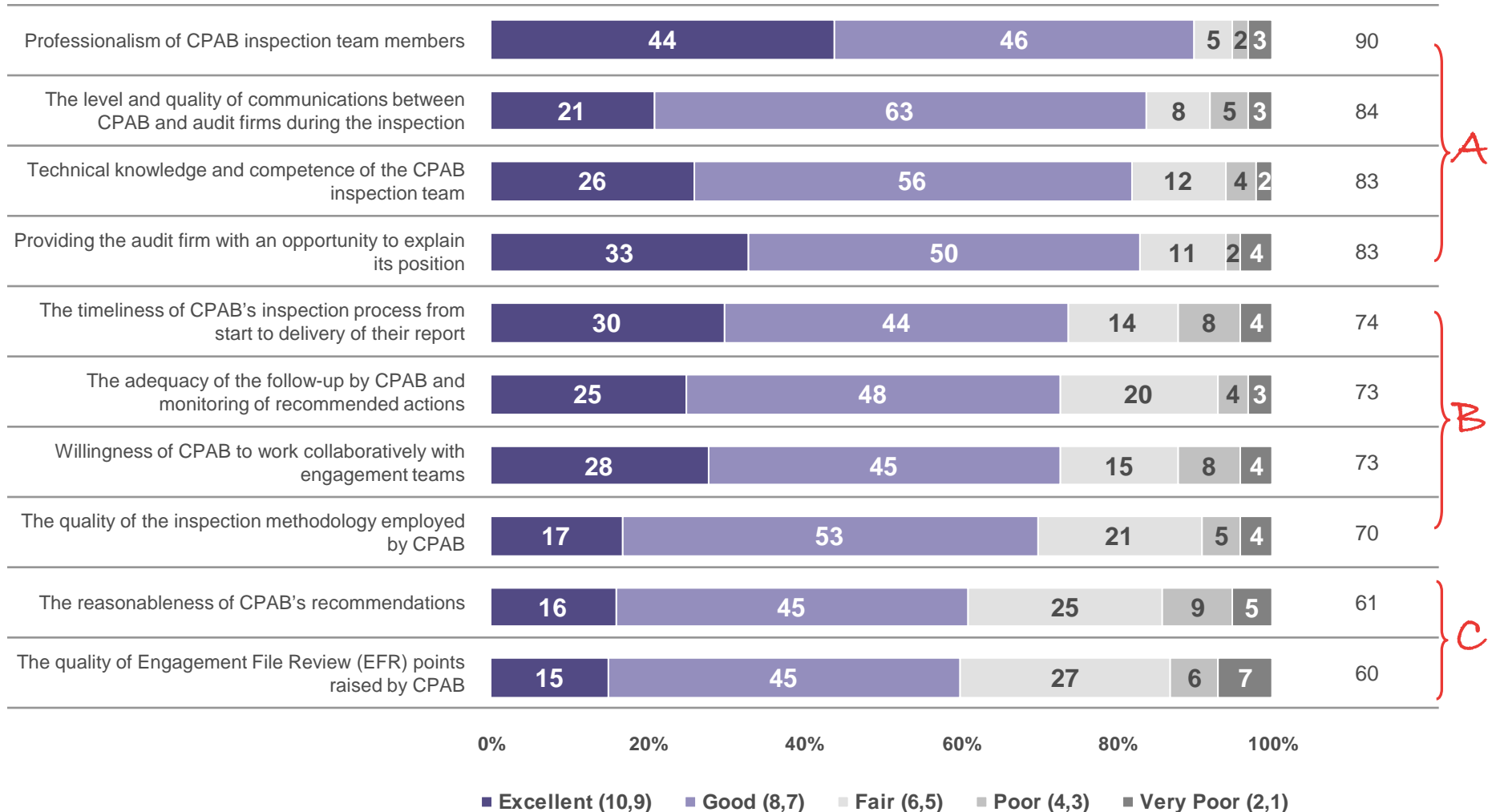
- ◆ Stakeholders remarked on a number of changes/improvements:
 - Less focus on the “*minutiae*” and a more risk-based/focused approach to audits
 - Related to the above, a notable change in direction to more constructive criticism
 - More risk based approach
 - Better hiring practices – inspection teams with greater technical depth and knowledge
 - Better communications and collaboration with audit firms

CPAB's Report Card

- ◆ If we were issuing a report card to CPAB, based on stakeholders' ratings, CPAB would receive passing grades, but clearly performs better in some areas than others:

Grade <i>A</i>	Grade <i>B</i>	Grade <i>C</i>
Professionalism	Timeliness	Recommendations
Communication	Adequacy of Follow-up	EFR Points Raised
Knowledge & Technical Competence	Collaboration	
Opportunities to Explain Position	Quality of Inspection Methodology	

The majority rate CPAB positively across key dimensions of the inspection process, but to varying degrees





Highest rated attributes:

Professionalism

- ◆ CPAB teams are widely viewed as professional and respectful

Knowledge

- ◆ Many stakeholders noted improvements in knowledge of the inspection teams as well as the level of direct, practical audit experience

Communication

- ◆ Communications are viewed as effective and improved – open, upfront and timely – and stakeholders remark that the audit team “listens,” however the experience of firms appears inconsistent
- ◆ Some issues where individual engagement partners do not receive as much communication although there is communication at the national level – is this a firm decision?

Providing firms with the Opportunity to Explain their Position

- ◆ General consensus that CPAB works collaboratively and is more open now to understanding why firms may have dealt with items in a certain way

Moderately Rated Attributes

Timeliness

- ◆ Refocusing on major items/risk areas is seen as helping to speed the process, without undermining quality
- ◆ Large part of efficiency gains attributable to better communications throughout the inspection process and, as a consequence, less follow-up required

Adequacy of Follow-up

- ◆ Very few comments on this aspect of the inspection process

Willingness to Work Collaboratively

- ◆ Teams viewed as cooperative, resolution-oriented and genuinely interested in helping firms

Quality of Inspection Methodology

- ◆ Very few comments on this aspect of the inspection process



Lower Rated Attributes

Reasonableness of Recommendations

- ◆ Mixed views on reasonableness of recommendations, but move beyond “minor” issues to identified risk areas is seen as significant improvement
- ◆ Focus on Part 1/Part 2 in reporting also viewed as a sensible approach.

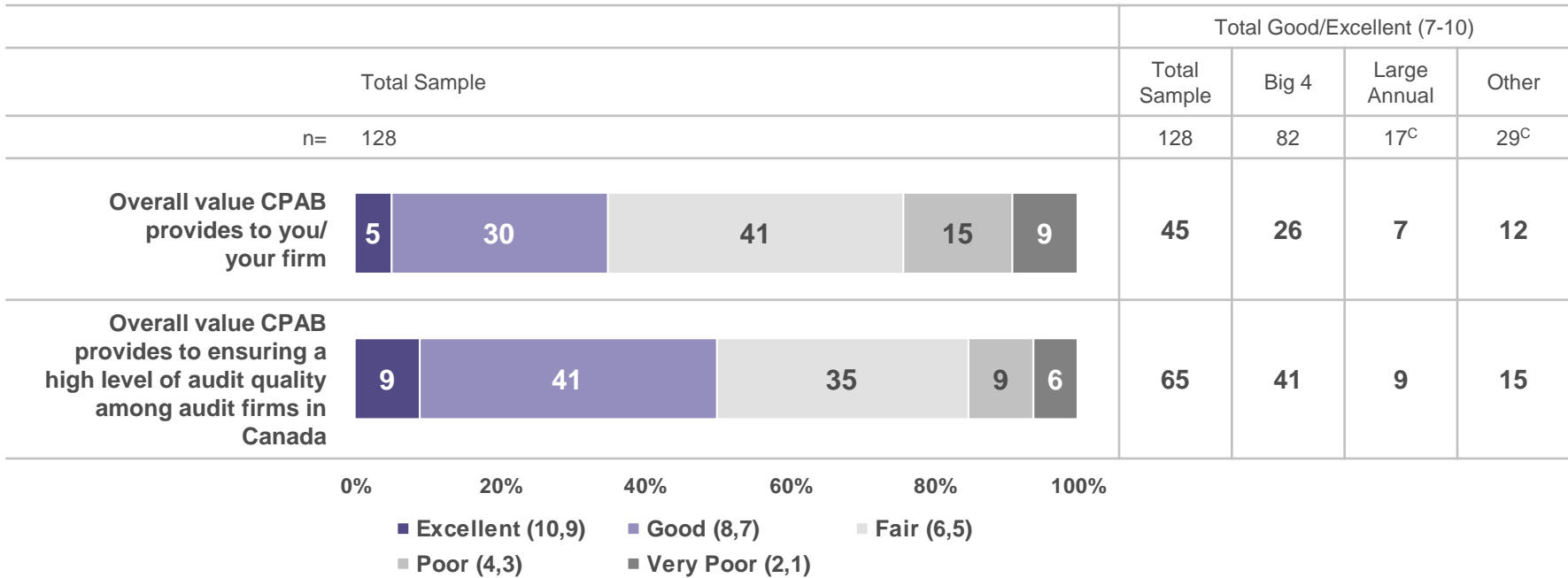
Quality of EFR Points

- ◆ Significant improvements in moving beyond the “small points” to a more valued prioritization, focus on the major issues (*“that really mean something”*) and best practices

Perceptions of
Value & CPAB's
Impact on Audit
Quality

The question of value from CPAB sparked debate

- ◆ Whether and how much value CPAB offers is seen as debatable.
 - First, some respondents questioned exactly what constitutes value from CPAB;
 - Secondly, providing value to firms themselves is not necessarily viewed as CPAB’s principal mandate, but rather to the investing public; and
 - Finally, when firms assess value on a purely cost/benefit basis, the formula is heavily weighted toward the “cost” side (i.e. CPAB fees and the time/effort required of firms to complete inspections).



Many agree that CPAB's rigorous approach does add value ...

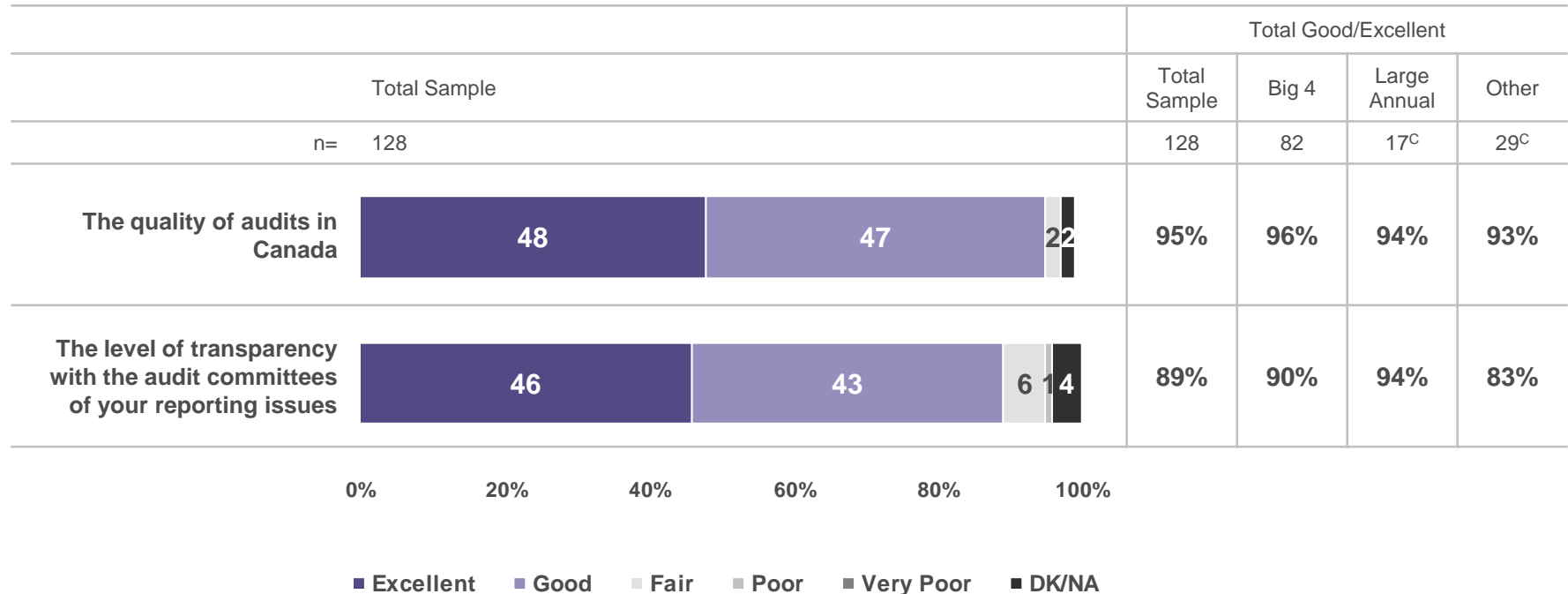
◆ CPAB is viewed as:

- Providing firms with helpful general feedback, an objective review of audit firms' procedures and policies and corroboration for firms on their current processes;
- Generally pushing the quality of audits up;
- Encouraging firms to place more emphasis on staff training;
- Arming audit firms with more clout in their dealing with clients; and
- Eliminating "marginal" firms (although this remains an issue for some).

◆ Value could be enhanced through:

- Sharing of best practices;
- Continuing to increase technical knowledge and industry expertise of inspectors;
- Continuing to focus on risk-based issues;
- Maintaining continuity of inspection teams (avoiding undue re-education on firm's internal processes and procedures);
- Expanding CPAB's role as an educator – to firms, Boards, Audit Committees, the investing public and the general public;
- More ongoing communications on emerging issues, changing standards and expectations;
- Continuing to institute a more collaborative approach and practical solutions;
- More open dialogue with firms on evolving standards and CPAB's mandate;
- Increased focus on the smaller audit firms;
- Creating a network of specialists that smaller firms can consult; and
- Greater recognition of the cost and time pressures on audit firms.

CPAB's role in improving quality is acknowledged, although most rate audit quality in Canada highly



Q. 24 How would you rate each of the following ...
 Base: Total sample
 c Caution, small base size

The economic downturn is perceived to have had a variable impact on audit quality, but generally more positive than negative

IMPACT OF DOWNTURN ON AUDIT QUALITY

NEGATIVE

- ◆ Audits have been adversely affected by corporate-wide cost reduction measures
- ◆ Clients have used the recession as an opportunity to shop for lower fees
- ◆ Pressure on auditors to make f/s “look better”
- ◆ Risks that auditors will deem some issues to be insignificant, simply as a means of controlling audit fees (under pressure from audit committees)
- ◆ Clients are not responding to IFRS as they should due to lack of funds

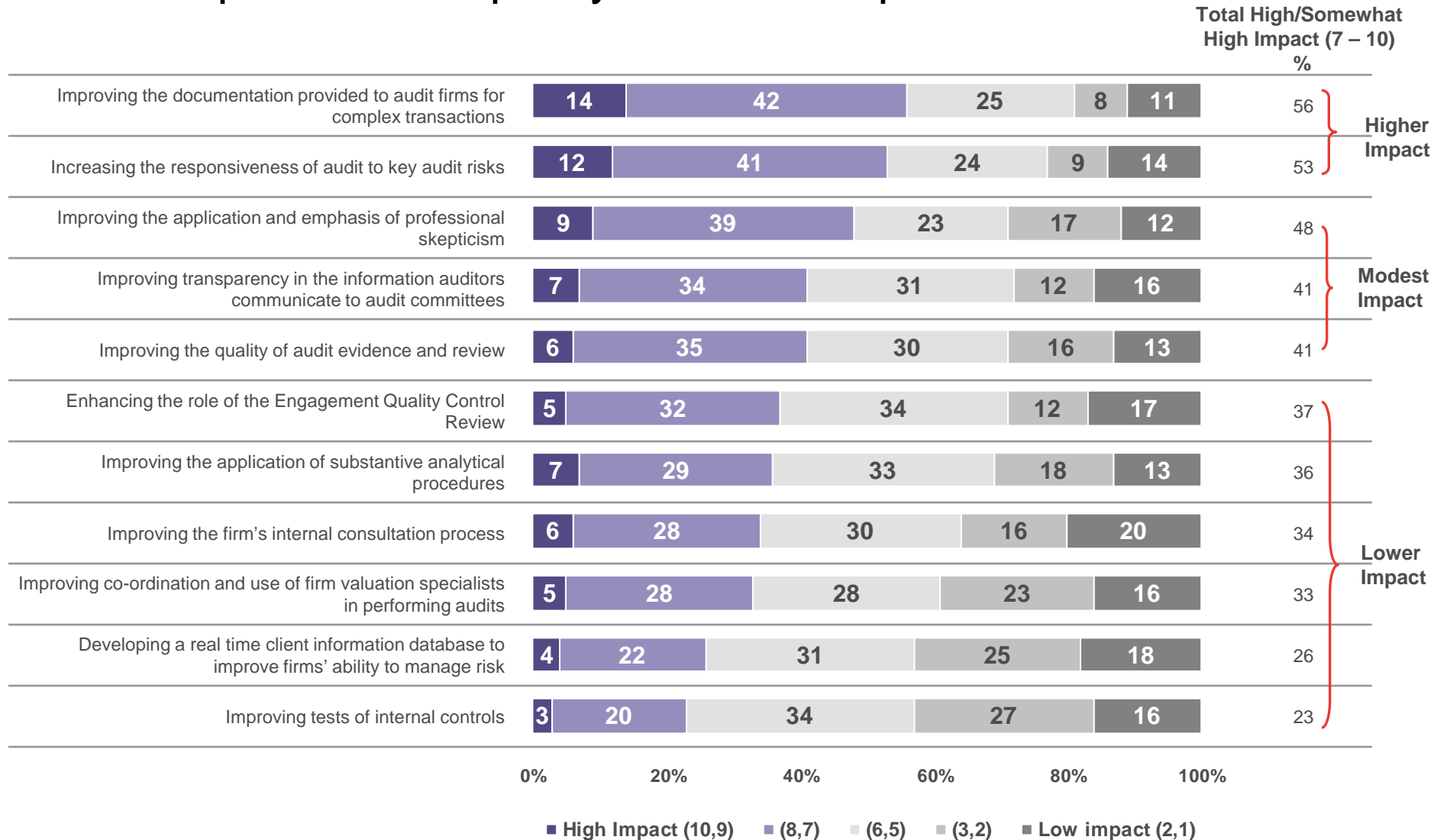
NEUTRAL

- ◆ Zero impact/None
- ◆ No deterioration, no improvement
- ◆ Quality has been and continues to be at a high level

POSITIVE

- ◆ Increased vigilance and skepticism
- ◆ Improvements in the level of file documentation and consideration of issues such as fair value, impairment and potential solvency issues
- ◆ Greater focus on risk areas and more consultation has resulted
- ◆ Increased transparency

How to improve audit quality: relative impact of actions



Q. 25 Please rate each of the following in terms of the impact you believe each would have on improving the quality of audit work.
Base: Total Sample (n=128)

Other suggestions for improving the quality of audits

- ◆ Some changes to the inspection process, **focusing on firms' processes/controls to manage risk**
- ◆ Make the profession more appealing in order to **attract and retain “top talent”** and academic instruction specifically focused on developing critical audit skills
- ◆ **Less “checklist” oriented**/more focused on *“thinking through problems”*
- ◆ **Better education of directors and reporting issuers** (on GAAP, document controls and systems), and of the public

Challenges to audit quality

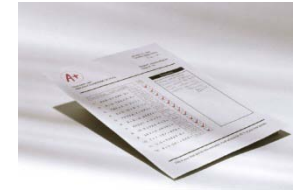
- ◆ IFRS conversion is viewed as the largest by far
 - *“The fact that 40-50% of IFRS will change post-implementation will make the reporting regime very volatile for 2-3 years afterward.”*
- ◆ Pressure on fees, costs and resources
- ◆ Pace, magnitude and continuous nature of change within the regulatory landscape
- ◆ Complexity of financial accounting and reporting rules
- ◆ Standards overload
- ◆ Shift in regulatory compliance to regulator needs versus investor/user needs
- ◆ Lack of understanding among companies of the key risks facing their businesses, and of financial issues and GAAP by board members, directors, audit committees

Summary Highlights

Summary Highlights: CPAB Performance

- ◆ CPAB scores relatively well on many key global performance indicators:
 - Overall performance rating
 - Communications with firms
 - Collaboration with firms
 - Value in ensuring a high level of audit quality in Canada

- ◆ Performance on 10 dimensions of the inspections process (i.e. EFR, recommendations, follow-up, technical knowledge, professionalism) varies, but mostly positive



Summary Highlights: Common Themes

- ◆ Many believe that CPAB should develop and promote a higher public profile
 - Raise awareness of CPAB, its function and of the quality of audits
 - Educate the investing public, audit committees, reporting issuers on CPAB's role and results

- ◆ Concerns about raising standards through the inspection process and CPAB's evolving role
 - More clarification around if/how CPAB's mandate may be changing
 - There were many questions raised about the relevance of requests for HR/personnel files

- ◆ Treatment of smaller versus larger audit firms
 - While progress is noted, firms continue to call for more risk-based approach, tightening up on smaller firms that aren't seen to have the technical expertise required
 - Cost considerations are also in play as smaller firms, that aren't inspected as frequently, are seen as having a competitive advantage

- ◆ Deployment of resources during an inspection
 - Firms alluded to stress as well as cost (in time/money) devoting resources to the inspection

Summary Highlights: Increasing Value

- ◆ Value to firms could be enhanced by:
 - More ongoing communications, outside the inspection process
 - Build rapport, trust and respect
 - Forge a more collaborative relationship

 - Share best practices
 - What firms are doing to ensure IFRS readiness
 - How firms could gain further efficiencies
 - What's being done well/what could be done better
 - Moving to Canadian Auditing Standards

 - Boost CPAB's industry specific expertise

 - Continue moving toward a more risk-based approach
 - Reviewing firms' internal controls and processes
 - A focus on the smaller firms