



Canadian Public  
Accountability Board  
Conseil canadien sur  
la reddition de comptes

MARCH 2023

# CPAB Regulatory Oversight Report: 2022 Annual Inspections Results

[CPAB-CCRC.CA](https://cpab-ccrc.ca)



## CPAB's regulatory disclosures

As part of strategic commitment one, to advance a quality-driven culture across auditors of Canada's public companies, we will expand the information we disclose publicly.

In 2021, CPAB consulted stakeholders to gather input on potential changes to the information that we disclose about the results of our regulatory assessments. CPAB took this input into account, and in 2022 published intended changes to the information we will disclose about the results of our oversight of participating audit firms that audit Canadian reporting issuers.

Significant planned changes to the information disclosed will take place in a phased approach. As part of the first phase, effective January 2023, we began to disclose all significant enforcement actions arising from regulatory assessments—this is being implemented on a prospective basis. In the past, disclosures had been limited to instances where public sanctions were imposed. Stakeholders may also subscribe to receive updates on our enforcement activities.

In addition, effective January 1, 2023, we are making public details of CPAB recommendations where firms have not addressed concerns to our satisfaction. Under Rule 416, CPAB has the power to disclose weaknesses, deficiencies or recommendations which were included in a firm report but not addressed within 180 days of issuance of a final inspection report. As part of the consultation process, stakeholders indicated that this information would be relevant to the public to assess audit quality at firms, particularly for the most significant weaknesses, deficiencies or recommendations.

We are also working with provincial securities commissions and applicable government bodies to make changes to CPAB's Rules and legislation to permit a second phase of disclosure changes, which would include mandatory disclosures to audit committees and the publishing of individual firm inspection results. We expect these changes to take additional time to implement due to the requirements for public consultation and further engagement with provincial authorities who approve changes to our rules and legislation.

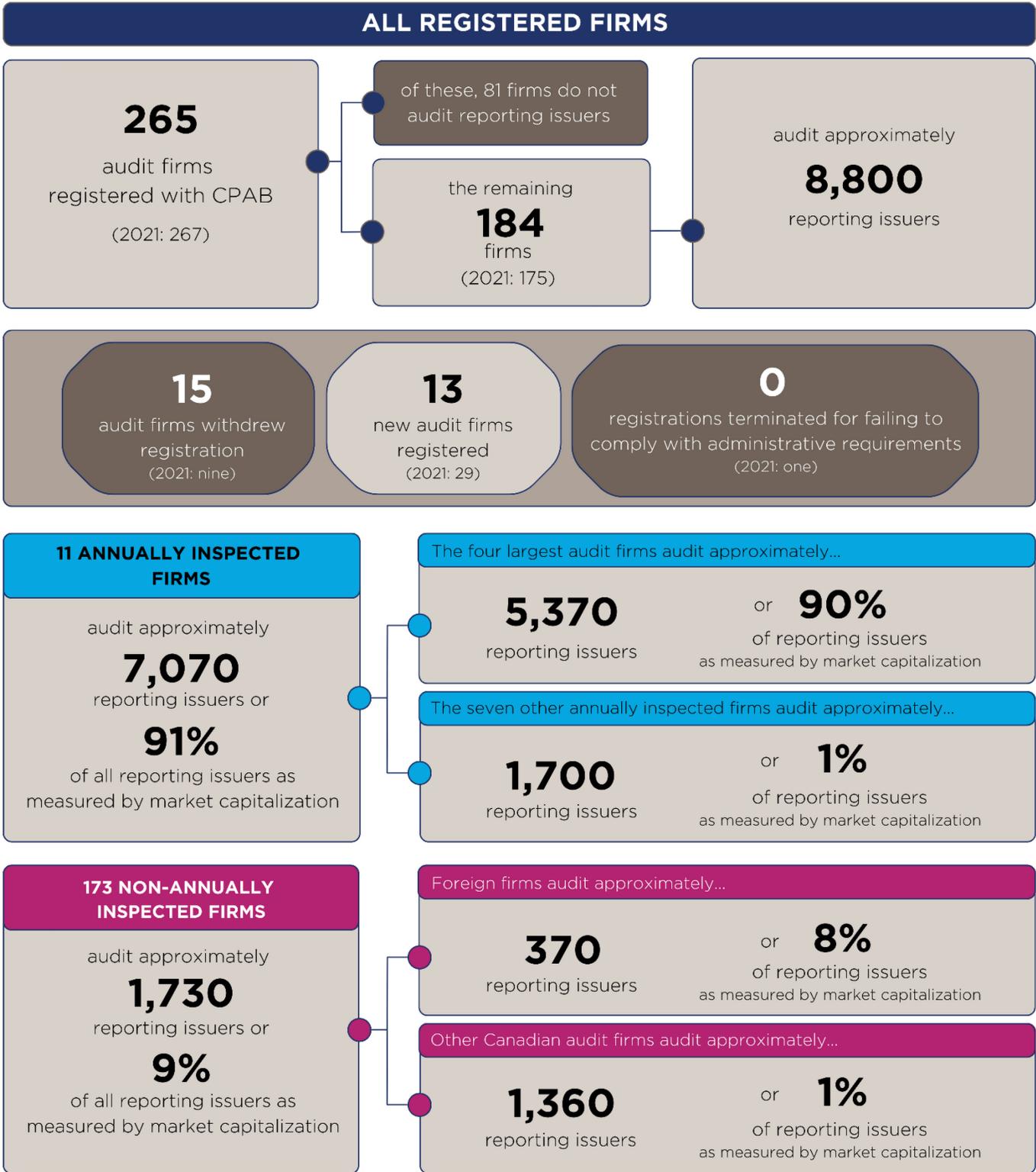
For more information, visit [cpab-ccrc.ca/insights/disclosures](https://cpab-ccrc.ca/insights/disclosures).



# Operational Report

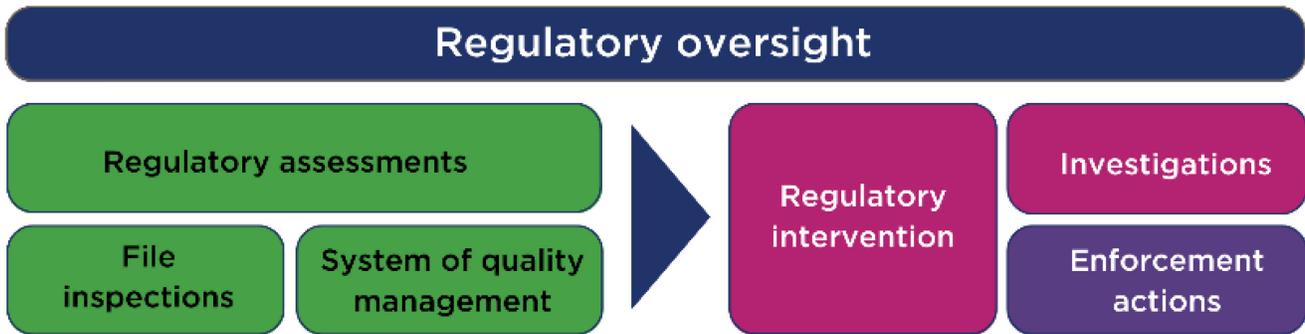
## CPAB's assessment landscape

at December 31, 2022:





## Regulatory Oversight



CPAB’s regulatory oversight of public accounting firms that audit Canadian reporting issuers includes the inspection of completed audits of financial statements, the firm’s system of quality management<sup>1</sup> and regulatory intervention.

This year, we saw an improvement in inspection results at most annually inspected firms. However, the aggregate findings rate of 19 per cent is above the target of no more than 10 per cent of files inspected with significant findings. Conversely, there was a significant increase in the findings rate at non-annually inspected firms. The improvements realized at annually inspected firms are encouraging given the significance of the reporting issuers audited by these firms; they reinforce the importance of a strong system of quality management to support the consistent execution of quality audits.

Of significant concern is the high number of restatements that arose from inspections conducted in 2021.

We continually evaluate the effectiveness of our regulatory oversight and refine our strategy and outreach activities to promote high-quality audits of Canadian reporting issuers. In addition to increased enforcement activity, we publish more detailed inspection findings through our Strengthening Audit Quality communication series and through thought leadership publications covering technology in the audit, existence of crypto assets, auditing in the cannabis sector and our fraud and going concern thematic reviews. Our outreach activities, which have expanded the conversation about audit quality matters with a broad range of stakeholders, are outlined on page 20.

### How CPAB chooses files to inspect

CPAB’s risk-based methodology for choosing files for inspection (and the specific areas of those files) is not intended to select a representative sample of a firm’s audit work. Instead, it is biased towards higher-risk audit areas of more complex public companies or areas where the audit firm may have less expertise. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

<sup>1</sup> The inspection of the system of quality management for all annually inspected audit firms includes an evaluation against CPAB’s quality management systems (QMS) assessment model (**Quality Management Systems assessments: Strengthening Audit Quality**) for the four largest annually inspected audit firms and one other annually inspected audit firm; and an evaluation of compliance with the Canadian standard on quality control (CSQC 1) for firms that perform audits of financial statements. Collectively referred to as the system of quality management.



## 2022 regulatory assessments

All public accounting firms that audit a Canadian reporting issuer must register with CPAB<sup>2</sup>. The graphic on page 2 shows the scope of our assessment landscape in 2022.

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. There are currently 11 firms (2021: 11) in this group which audit approximately 7,070 reporting issuers. These firms audit approximately 91 per cent of all Canadian reporting issuers as measured by market capitalization.



### File inspections

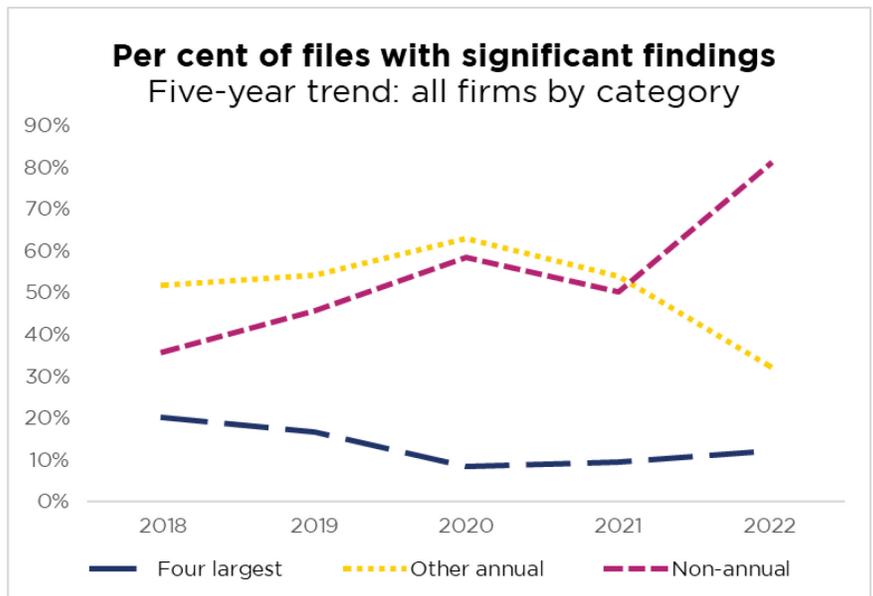
In 2022, we inspected 132 files and identified significant findings<sup>3</sup> in 44 files. This 33 per cent finding rate compares to 28 per cent across 134 files in 2021. We inspected more files at non-annually inspected firms, which had a significantly higher finding rate. By comparison, the International Forum of Independent Audit Regulators reported in their 2022 survey of inspection findings a rate of 30 per cent for the six largest global audit firm networks.

Three of the four largest audit firms met the target of no more than 10 per cent of files inspected with significant findings. One large firm that met the target in the prior year did not meet the target in 2022 with significant findings of 29 per cent. The aggregate level of significant findings at other annually inspected audit firms has improved with a finding rate of 32 per cent (11 of 34 files), compared to 54 per cent (22 of 41 files) in the prior year.

### Frequency of firm inspections

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. These annually inspected firms include the four largest audit firms and, in 2022, seven additional firms.

We also inspect, at least every two years, firms which audit between 50 and 99 reporting issuers. The remaining firms are inspected periodically based on CPAB's risk analysis. These firms collectively are referred to as the non-annually inspected firms.



<sup>2</sup> Securities legislation defines what constitutes a reporting issuer. Each of the 13 Canadian securities commissions maintains a list of the reporting issuers in their respective jurisdictions.

<sup>3</sup>Significant findings - A significant inspection finding is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires firms to carry out additional audit procedures to verify there was no need to restate the financial statements due to material error, or to substantiate that they had obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.

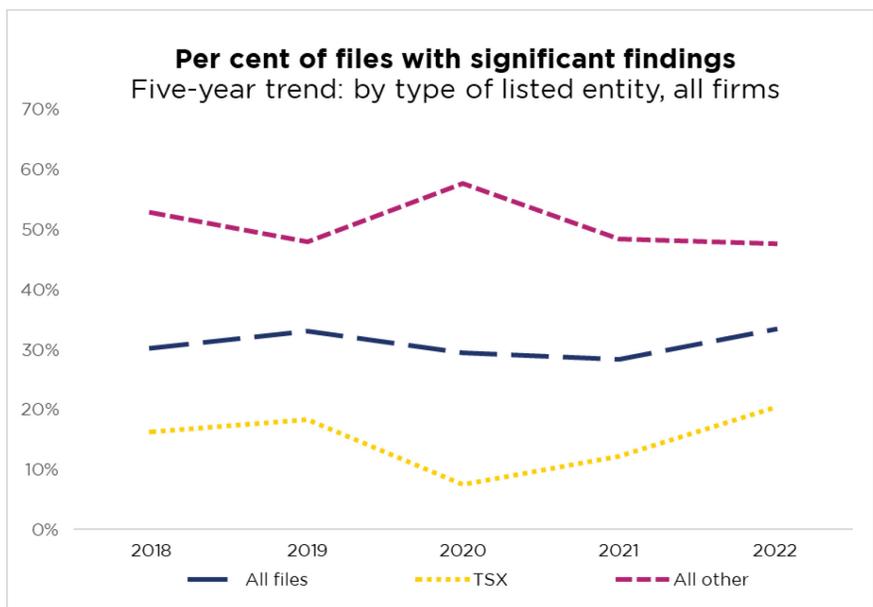


The level of significant findings at non-annually inspected firms is concerning, with an increased finding rate of 81 per cent (25 of 31 files), compared to 50 per cent (9 of 18 files) in 2021. Please see the section entitled Non-annually inspected audit firms on page 15 of this report for more detail on this and other findings.

Our annual inspections in 2022 included 69 files of Toronto Stock Exchange (TSX) listed entities and 63 non-TSX listed entities (2021: 74 TSX; 60 other). In the past five years, the overall level of significant findings in non-TSX listed entities has remained unacceptably high. We have also seen an increase in the level of findings at TSX listed entities.

In 2022, we obtained access to and reviewed component auditor working papers located in foreign jurisdictions for seven files selected for inspections (2021: eight). There was one significant finding in the foreign component auditor working papers we reviewed (2021: two).

Seven restatements have been required since our 2021 annual report (one at one of the four largest audit firms, three at other annually inspected audit firms and three at non-annually inspected audit firms). Of the seven restatements, six resulted from inspections conducted in 2021 and one resulted from an inspection conducted in 2022. This compares to one restatement at a non-annually inspected firm reported in our 2021 annual report, resulting from an inspection conducted in 2021. Where a restatement is required, the firm must work with the reporting issuer to effect the restatement as soon as possible – usually within the next quarterly reporting cycle.



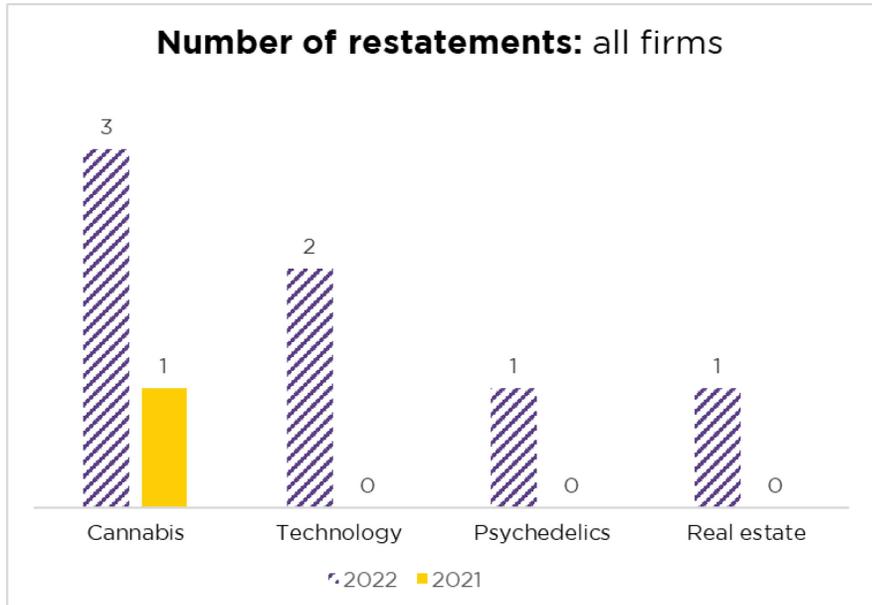
The graph on the following page indicates the industries in which these reporting issuers operated for 2022 and 2021. These restatements were identified because of additional procedures performed by audit firms in response to significant findings identified during our inspections.



The following inspected audit areas resulted in several restatements: business combinations (mergers and acquisitions), revenue and long-lived assets.

Examples include:

- The reasonableness of deferred taxes not recorded by management in connection with business acquisitions was not evaluated.
- Insufficient understanding of the arrangements with customers to evaluate whether revenue should have been recognized.
- Insufficient evidence to support significant assumptions used in an asset impairment analysis.



## Enforcement actions<sup>4</sup>

Poor quality audits and other misconduct in violation of professional standards can harm the investing public and threaten the trust in our capital markets. CPAB takes enforcement action when necessary to prevent and deter misconduct and restrict the practices of firms that have demonstrated deficiencies in audit quality.

Enforcement activity continued to increase in 2022 to address concerns related to audit quality and ethics-related issues. In 2022, 13 firms were operating under enforcement actions for substantially all of the year, which is an increase of four firms as compared to 2021. In 2022, enforcement actions were imposed on two of the four largest firms. Additionally, three new investigations were initiated and are ongoing.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 17 of this report.



## System of quality management evaluations

Three of the four largest audit firms met the target assessment ratings of *acceptable* or *acceptable with opportunities for enhancement* in 2022 against CPAB's quality management systems (QMS) assessment model. The firm that did not meet the target set for QMS also did not meet the target of no more than 10 per cent of files inspected with significant findings.

<sup>4</sup> Enforcement actions include requirements, restrictions and sanctions.

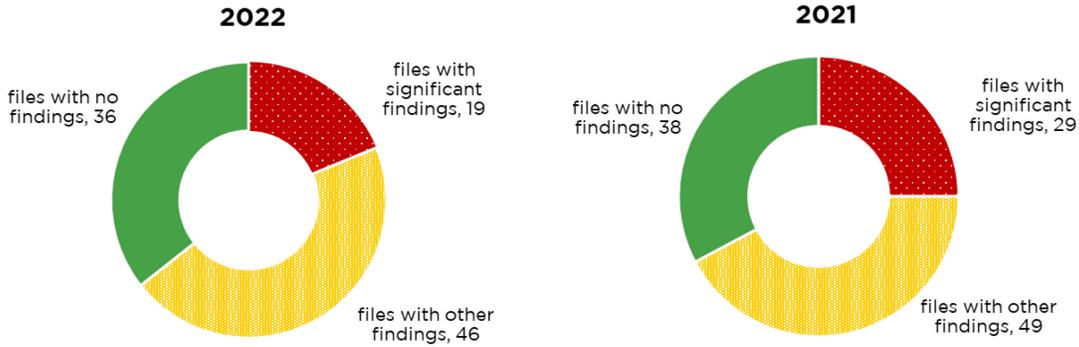


## Common inspection findings and trends

### ANNUALLY INSPECTED FIRMS

At the 11 annually inspected firms, CPAB inspected 101 audit files in 2022 (2021: 116) and identified significant findings in 19 files (2021: 29).

- Four largest audit firms: 67 files (2021: 75); eight (2021: seven) with significant findings.
- Seven other annually inspected audit firms: 34 files (2021: 41); 11 (2021: 22) with significant findings.



\* Other findings – A noted deficiency in the application of generally accepted auditing standards related to a material balance sheet item or transaction stream where CPAB is able to conclude, without the engagement team performing additional procedures to support the audit opinion, that the deficiency is unlikely to result in a material misstatement. These findings, while not significant, indicate areas for improvement.

Nineteen per cent of files inspected at these firms had significant findings (2021: 25 per cent). In 2022, our annual inspections included 65 files of TSX listed entities and 36 non-TSX listed entities (2021: 73 TSX; 43 other).

**Per cent of files with significant findings**  
Five-year trend: by type of listed entity, annually inspected firms



ANNUALLY INSPECTED FIRMS



The table below reflects the audit areas most frequently reviewed in 2022 and 2021 and the level of significant findings. These areas were selected because they were generally significant to the reporting issuer's financial statements or included complex issues or judgment.

Audit area	2022		2021	
	Files inspected	Significant findings	Files inspected	Significant findings
Revenue and related accounts	78	4	92	14
Long-lived assets <sup>1</sup>	54	7	64	4
Business combinations	46	3	28	6
Inventory	34	1	36	5
Financial instruments <sup>2</sup>	24	5	43	6

<sup>1</sup>Includes goodwill, intangible assets, investment properties and property plant and equipment.

<sup>2</sup>Includes investments, loans, allowance for credit losses, derivative assets/liabilities, claims liabilities and reinsurance assets.

The table below reflects the number of files inspected at the 11 annually inspected firms in industries that had an elevated findings rate in 2022 and 2021. Nine of the 19 files with significant findings identified were in reporting issuers operating in these industries (2021: 15 of 29).

Industry	2022		2021	
	Files inspected	Significant findings	Files inspected	Significant findings
Technology	17	3	15	4
Cannabis	6	2	11	7
Psychedelics	4	2	1	1
Crypto	3	2	6	3

Since our 2021 annual report, our inspections of annually inspected firms resulted in restatements by reporting issuers in the following industries: cannabis (one), technology (one), psychedelics (one) and real estate (one). There were no restatements at annually inspected firms reported in our 2021 annual report. The following inspected audit areas resulted in restatements since our 2021 annual report: revenue (two), long-lived assets (one) and business combinations (one).



## Common inspection findings

### ALL FIRMS

Significant findings related to:

- The sufficiency and appropriateness of audit evidence.
- Understanding of the services provided by a service organization.
- Compliance with relevant ethical requirements, including independence.

#### Quality of audit evidence



Concern related to the quality and sufficiency of audit evidence, including the application of

professional skepticism, is a recurring inspection theme. The findings, observations and examples outlined in the CPAB publications [Audit Evidence: Strengthening audit quality](#) (March 2022), [Auditing accounting estimates: Strengthening audit quality](#) (September 2021), [Existence of crypto-assets held by third parties](#) (August 2022), [Auditing in the cannabis sector](#) (February 2021) and [Technology in the audit](#) (August 2021) continue to be relevant.

In some instances, the auditors did not perform sufficient testing related to an account or a significant portion of an account, or to address an identified risk.

Examples include:

- Insufficient testing of the design or operating effectiveness of relevant internal controls.
- Insufficient evidence to assess significant assumptions and judgments about future events or conditions when auditing accounting estimates, including the evaluation of the entity's ability to continue as a going concern.
- Lack of audit evidence to support that revenue was appropriately recognized, including:
  - insufficient evidence to support that material related party transactions were eliminated on consolidation, and
  - overreliance on cash as the primary source of audit evidence.
- Insufficient testing of the data inputs and outputs of automated tools used to evaluate revenue.
- No substantive evidence was obtained on material assets acquired and liabilities assumed in significant business combinations.
- Overreliance on management representations without corroboration with third party evidence.

Audit firms that voluntarily participate in the **Protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees** (Protocol) share significant file-specific inspection findings with their reporting issuers' audit committees. In 2022, 34 of the 44 files with significant findings were shared by the audit firm with the relevant audit committee under the Protocol (2021: 36 of 38).

Ten of the 11 annually inspected audit firms participate in the Protocol. A complete list is available at [cpab-ccrc.ca](http://cpab-ccrc.ca). While CPAB pursues rule changes to make the reporting to audit committees mandatory, we strongly encourage all audit firms to share significant file-specific inspection findings with their reporting issuers' audit committees.

For more information, visit [cpab-ccrc.ca/insights/disclosures](http://cpab-ccrc.ca/insights/disclosures).



## Understanding the services provided by a service organization

We are seeing an increase in the range of business activities that are being outsourced by reporting issuers to service organizations. This is most prevalent in reporting issuers operating in the technology and crypto sectors. In many instances, third party service providers are involved in running a significant portion of the reporting issuer's operations, processing transactions or holding assets.

Auditors did not always obtain sufficient evidence to evaluate the design and implementation of relevant controls at the reporting issuer over the activities undertaken by the service organization. A sufficient understanding of the significance of the services provided and their effect on the reporting issuer's internal controls is necessary to ensure risks of material misstatement are identified, assessed and appropriately addressed.

There was insufficient consideration of whether risks identified could be addressed by performing substantive procedures alone or by relying exclusively on controls in place at the reporting issuer. In these circumstances, some auditors either did not obtain the service organization audit report(s) or did not sufficiently evaluate and/or test the relevant oversight controls at the reporting issuer. In cases where a service organization report was not available, some auditors did not consider the need to evaluate the design and implementation of relevant controls at the service organization directly.



## Ethical requirements, including independence

We continue to have significant findings related to the identification and evaluation of threats to independence caused by non-audit services provided by the auditors. Our independence findings are most prevalent for newly accepted audit engagements or where there is a change in the independence requirements because the entity becomes a reporting issuer during the engagement period through an initial public offering or other transaction.

The relevant independence and other ethical standards in Canada describe independence as comprising both independence of mind and independence in appearance. Independence requires the absence of any influence, interest or relationship which would impair the professional judgment or objectivity of the individual members of the engagement team or the firm in the view of a reasonable observer.

Examples of independence breaches identified in our inspections included:

- The preparation of tax calculations for the purpose of preparing accounting entries.
- Extensive testing of internal controls without an evaluation of whether the services were in substance the outsourcing of internal audit. In this case, the purpose of the testing was to support management's certification in accordance with National Instrument 52-109, *Certification of Disclosures in Issuers' Annual and Interim Filings*.

The assessment of auditor independence and other relevant ethical requirements should not be treated as a compliance exercise. It must include a critical evaluation of all relevant facts and circumstances to ensure the spirit and intent of the requirements are met.



## Firm-specific assessments

The firm-specific assessments include the inspections of completed audits of Canadian reporting issuers and each firm’s system of quality management. Reviews of the latter incorporate an evaluation of compliance with current quality management standards for all annually inspected audit firms and an assessment against CPAB’s QMS assessment model for the four largest audit firms and one other annually inspected audit firm.

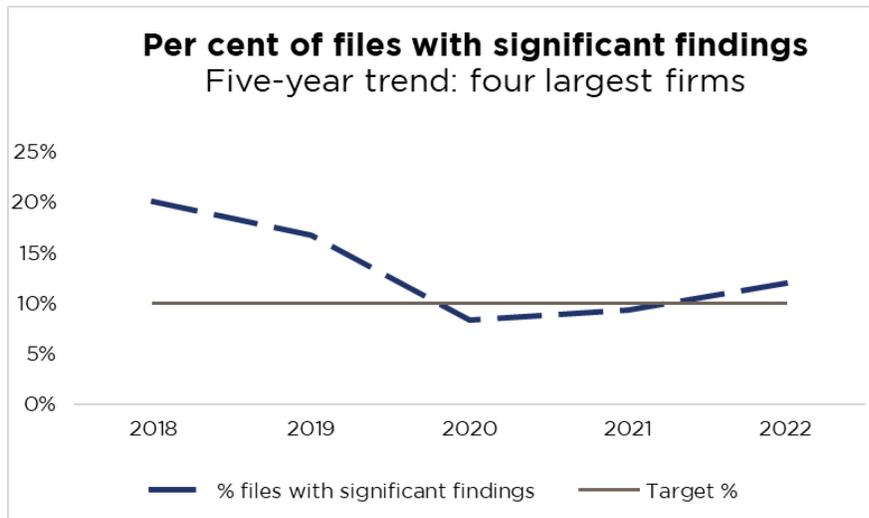
### Deloitte LLP, Ernst & Young LLP, KPMG LLP & PwC LLP

We inspected 67 files (2021: 75) and identified significant findings in eight of those files (2021: seven). One firm that met the target of no more than 10 per cent of files with significant findings in 2021 missed the target in the current year, with 29 per cent of files with significant findings.

The two firms that did not meet the target in 2021 did meet the target in the current year. As a result of sustained improvement observed in our 2021 and 2022 inspections, the remaining requirements placed on one of the four largest audit firms in 2021 were removed.

The firm that did not meet the target in 2022 was directed to develop a quality action plan. This action plan must include strategies to respond to our recommendations as well as targeted actions identified by the firm through their root cause analysis. These plans prioritize the steps the firm believes will have the greatest impact on improving audit quality and may include cultural assessments, improvements to firm-wide controls and processes to support engagement teams, enhanced training and supervision, hiring more staff with greater expertise and in-flight quality reviews. We will continue to actively monitor the firm’s progress in implementing its audit quality action plan and addressing concerns related to its system of quality management. If the firm fails to satisfactorily implement responses to our recommendations or if there is no meaningful improvement in subsequent inspection results, we will determine appropriate next steps.

The remediation of significant findings identified in 2022 has either been completed or is in progress. One restatement has been required since our 2021 annual report.



FOUR LARGEST FIRMS



**FOUR LARGEST FIRMS**

Our evaluation against CPAB’s QMS assessment model resulted in three of the four firms achieving ratings of *acceptable* or *acceptable with opportunities for enhancement* across all four criteria. No criteria for these firms were rated as *needs significant improvement*. Significant findings at one firm indicate that certain controls are not designed appropriately or operating effectively. This firm’s leadership needs to embed a continuous improvement mindset into their system of quality management. All firms need to ensure partners and staff have enough time to dedicate to specific audits.

The table below indicates the number of firms in each rating by criteria for 2022 and 2021.

**QMS assessments by criteria: four largest firms**

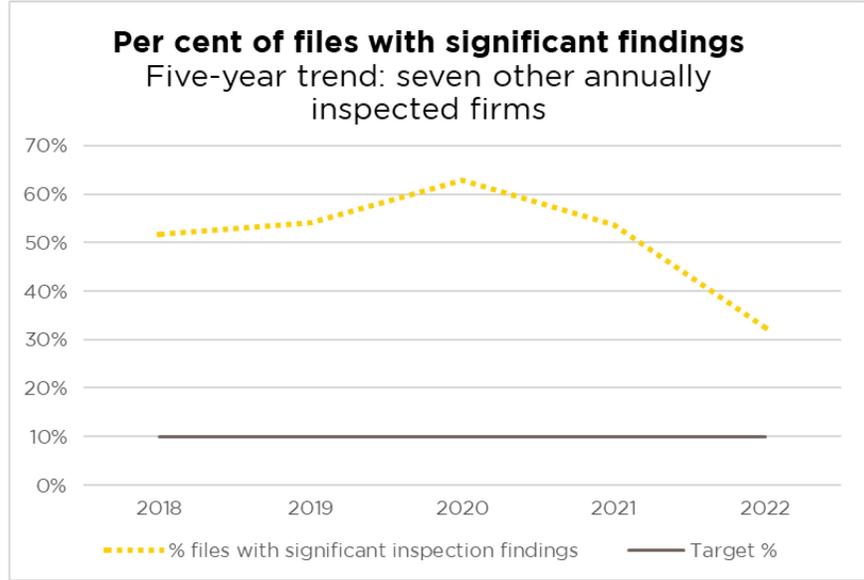
		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Accountability for audit quality	2022	3		1	
	2021	3	1		
Risk management	2022	3		1	
	2021	4			
Talent and resource management	2022		3	1	
	2021		3	1	
Oversight	2022	3		1	
	2021		3	1	



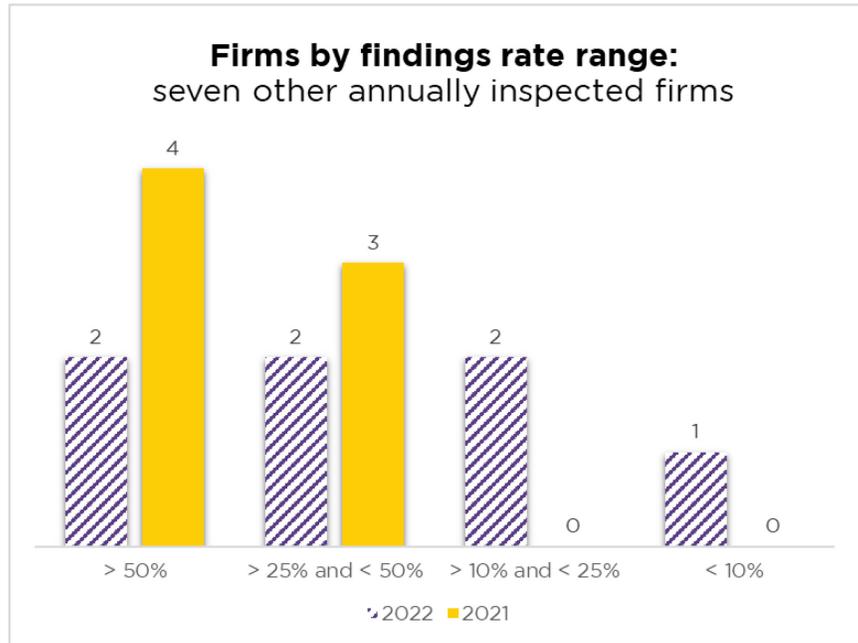
SEVEN OTHER ANNUALLY INSPECTED FIRMS

Davidson & Company LLP, DMCL LLP, Manning Elliott LLP, McGovern Hurley LLP, MNP LLP, Raymond Chabot Grant Thornton LLP, Smythe LLP

We inspected 34 files (2021: 41) and identified significant findings in 11 of those files (2021: 22). The reduction in files inspected is aligned with our risk-based methodology, as overall these firms audited fewer high-risk reporting issuers.



The graph below represents the number of firms that fell into the findings rate ranges specified for 2022 and 2021.





## SEVEN OTHER ANNUALLY INSPECTED FIRMS

Enforcement actions were in place for six firms with unacceptably high levels of significant findings over consecutive years. Four of the six firms under enforcement action had improved inspection results in each of 2022 and 2021. Decisions will be made in 2023 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 17 of this report.

The remediation of significant findings identified in 2022 has either been completed or is in progress. Three restatements have been required since our 2021 annual report. The following inspected audit areas each resulted in one restatement: revenue, business combinations and long-lived assets.

In addition to the four largest audit firms, one other annually inspected firm underwent evaluation against CPAB's QMS assessment model. This is the second year of their evaluation. The firm continued to make progress in documenting existing processes and implementing new controls and processes and linking them to our assessment criteria.

Furthermore, we requested certain firms not yet subject to CPAB's QMS assessments to provide an implementation plan for the new quality management standards. In October 2022, we published **System of quality management call to action: Strengthening audit quality**, a communication to all audit firms registered with CPAB. This document provided more detail on the importance of culture to a firm's system of quality management, preliminary observations on the implementation of the new quality management standards and an example to illustrate the iterative nature of a firm's system of quality management. As many controls and processes were implemented in 2022 or were still being developed, significant efforts are necessary by these firms to achieve a strong system of quality management that complies with the new quality management standards.



## NON-ANNUALLY INSPECTED AUDIT FIRMS

We inspected 31 files (2021: 18) and identified significant findings in 25 (2021: nine) of these across 21 non-annually inspected audit firms (2021: 13). This 81 per cent findings rate compares to 50 per cent in 2021. Three of the files inspected were at foreign firms (2021: two), and we identified significant findings in all three of those files. Significant findings were also identified in both of the foreign firm files inspected in 2021. Reporting issuers in industries inspected that resulted in restatements since our 2021 annual report were cannabis (two) and technology (one). This compares to one restatement at a non-annually inspected firm reported in our 2021 annual report in the cannabis industry.

The increase in the number of audit files inspected for non-annually inspected firms was due to a higher number of bi-annual firm inspections (firms that audit more than 50 reporting issuers), an increase in the number of crypto sector inspections due to growth in this sector and return visits to some audit firms where concerns had been identified in previous inspections. The nature of the findings at these firms are consistent with the common inspection findings and trends discussed on page 9. Lack of experience auditing in a particular industry or audit area and insufficient supervision and review were factors that contributed to the higher prevalence of significant findings at some of these firms.

The table below reflects the number of files inspected in the industries in 2022 and 2021 that had an elevated findings rate. Twenty of the 25 files with significant findings identified were in reporting issuers operating in these industries (2021: eight of 18).

Industry	2022		2021	
	Files inspected	Significant findings	Files inspected	Significant findings
Technology	9	5	5	1
Crypto	7	7	1	1
Cannabis	5	5	7	6
Psychedelics	3	3	-	-

The level of inspection findings at these firms is unacceptably high. In 2022, we imposed enforcement actions on one firm, and four other firms continued to operate under enforcement actions from previous years. Decisions will be made in 2023 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 17 of this report.

The year-over-year inspection results for the non-annually inspected firms are not comparable because the composition of this group of firms changes each year based on CPAB's risk-based methodology for choosing files for inspection. Our risk-based methodology targets files of more complex public companies or industries and audit areas where the audit firm may lack specialized expertise. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.



## Looking forward



### Firm culture

In the past two years, we completed and reported enforcement actions following two major investigations, one related to the involvement of audit staff in improper answer-sharing in connection with tests for mandatory internal training courses and the other related to backdating of work paper sign-offs. In both cases, the firms self-reported the actions to CPAB.



These situations underline the importance of firm leadership driving the right behaviours and fostering a culture that has investors and the integrity of Canada's capital markets at its core. CPAB's 2022-2024 strategic plan recognizes the importance of firm culture. Beginning in 2023, audit firm governance and culture will be integrated into our regulatory assessments in alignment with the new quality management standards.



### Climate thematic review

The climate thematic review focused on understanding how auditors are evaluating the impact of climate-related risks in their financial statement audits. Our work in this area will help us understand the current state of how climate matters are captured within audit activity today to inform our future activities, including contributing to the development of sustainability reporting and assurance standards by international standard setters.

We made a number of observations. Firstly, each of Canada's four largest audit firms had specific guidance and training materials to support auditors in considering and addressing climate-related risks in their financial statement audits. Secondly, the quality of the resources provided to the audit practice varied across the firms. There was a range of guidance and training seen at the other annually inspected firms, with many firms at the early stage of developing their approach in this emerging area. Additionally, in most files inspected by CPAB to date, there was no change to the audit approach to respond to the climate-related audit risks. Finally, in instances where climate-related factors were considered by auditors as part of their risk assessment, the extent and quality of work performed varied significantly.

CPAB encourages audit firms to proactively prepare their teams to consider and address climate-related risks in their audits. Firms should also increase their monitoring of this area to ensure that audit teams, particularly those auditing reporting issuers in industries more likely to be impacted by climate-related risks, are using their existing guidance and resources.



### Fraud and going concern

In 2022, we published our observations from our fraud and going concern thematic reviews and actively engaged with staff and board members of the International Auditing and Assurance Standards Board and Canada's Auditing and Assurance Standards Board on their current projects to revise the relevant auditing standards.

In 2023 we will continue to advocate for improving the work in these important areas including increased focus by auditors and enhancements to the auditing standards. During the year we will also increase our interactions with audit committees and other stakeholders in Canada and internationally on these important topics.



## Enforcement Overview

Enforcement actions are an integral part of CPAB's regulatory intervention and have increasingly been imposed to improve audit quality with the goal of protecting the investing public. Our focus is on ensuring the implementation of adequate remedial measures to prevent recurrence of audit failures.

CPAB concluded a public consultation on how we could modify and expand the disclosure of our regulatory results, including enforcement actions. The feedback informed the implementation of a new approach which will result in the disclosure of more enforcement actions in 2023. Significant enforcement actions as a result of inspection findings will be published on CPAB's website when imposed and will remain for a period of four years after the enforcement actions are terminated. Significant enforcement actions include termination of one or more audit engagements, restricting a firm's practice, prohibiting assignment of specified professional(s) on audit engagements, terminating a firm's registration with CPAB and public censure. In addition to serving as a deterrent, the goal of these increased disclosures is to further reinforce public confidence in Canada's capital markets and provide information that supports audit committees and investors in their roles.

CPAB's objective is to have a uniform approach to disclosures across all the Canadian provinces and territories. However, differences in provincial legal frameworks may result in some differences in our approach across the country. We are working to resolve any potential regional conflicts.

### Enforcement actions

The number of firms subject to enforcement actions has again increased when compared to previous years. The reduction in requirements in 2022 for two of the four largest firms is the result of CPAB's graduated regulatory intervention process, which includes the incremental reduction in enforcement actions when improvements have been made.

The chart below identifies the requirements, restrictions and sanctions imposed or in effect in 2022 compared to 2021. While a restriction on accepting new reporting issuer engagements may relate to a firm's overall practice, there are also instances in which firms have been restricted from accepting reporting issuers that are high risk. CPAB imposes these types of restrictions when we believe there is a risk to the investing public. Recovery of enforcement compliance costs is a standard aspect of all enforcement actions.



## Enforcement actions imposed or in force by year

CPAB Enforcement Actions		Four largest firms		Other annually inspected firms		Non-annually inspected firms	
		Imposed or in effect in 2022*	Imposed and in effect in 2021	Imposed or in effect in 2022	Imposed and in effect in 2021	Imposed or in effect in 2022	Imposed or in effect in 2021
Restrictions	Restricted from taking on new high risk reporting issuers	-	-	3	3	1	-
	Restricted from taking on new reporting issuers	-	-	2**	1	3	4
Requirements	Enhanced reporting to CPAB	2	1	6	4	-	1
	Additional training and/or coaching	-	2	6	4	4	1
	Enhanced engagement quality control review	-	-	1	1	3	3
	Mandated firm client portfolio review	-	-	6	4	-	-
	Mandated partner and manager portfolio review	-	-	6	4	-	-
	Appointment of an independent monitor	1	1	3	2	-	-
	Enhanced disclosure of CPAB inspection findings and recommendations to partners within the firm	1	1	2	2	-	-
	External professional to review the firm's system of quality control and/or completed audit engagements	-	-	3	2	2	1
	Cultural survey (perform or implement recommendations)	-	1	3	1	-	-
	Provide engagement findings reports to audit committees	-	-	-	1	2	1
	Implement a budgeting and resource management tool	-	-	3	-	-	-
	Prepare a budget and project plan to support the implementation of systems of quality management	-	-	3	-	-	-
	Other (including completing inflight reviews, revising policies)	2	6	9	2	4	1
Sanction	Public censure	1	1	-	-	-	-
		7	13	56	31	19	12
<b>Number of firms or discrete enforcement actions</b>		2	2	6	4	5	4

\*All restrictions and requirements were terminated by December 2022.

\*\*The restriction on one firm was terminated by December 2022.

## Investigations

In 2022, CPAB commenced three new investigations, the results of which will be published should each investigation identify a Violation Event that results in the imposition of enforcement actions.

As outlined in CPAB's 2021 annual report, an investigation initiated in 2021 and completed in 2022 into the conduct of personnel in relation to improper sharing of test answers for mandatory internal training courses was settled and resulted in the imposition of enforcement actions.<sup>5</sup>

<sup>5</sup> Details of the order are available at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca).



## CPAB's regulatory intervention process

CPAB expects firms to resolve audit quality issues as they arise during an inspection. CPAB's Rules provide a framework of regulatory intervention mechanisms to address audit quality deficiencies at the file and firm levels.

Throughout the inspection process, both the engagement team and audit firm are given the opportunity to provide their perspectives and written responses in relation to the facts, findings and recommendations arising from the inspection. Once the inspection has concluded, to protect the investing public and promote audit quality, unresolved matters may be escalated to regulatory intervention. This can include enforcement actions or the commencement of an investigation.

CPAB commences an investigation when we consider that a Violation Event may have occurred, and we wish to seek additional information. A Violation Event includes conduct that breaches CPAB's Rules or standards of professional conduct for the audit profession and may have an impact on the provision of audit services. This includes a failure to comply with enforcement actions imposed on a firm.

### Enforcement

CPAB initiates the escalation of regulatory intervention following an inspection or investigation by proposing the imposition of enforcement actions including requirements, restrictions or sanctions. Informal enforcement actions such as undertakings may also be used in a measured effort to address less serious concerns and to attain timely corrective action from a firm. All regulatory intervention is designed to protect the investing public and encourage sustained improvements to audit quality.

*Requirements* typically involve CPAB mandating that the firm implement targeted actions or change certain practices to improve audit quality, such as conducting a culture assessment, providing additional training or retaining an independent monitor to oversee compliance with any imposed enforcement actions and other audit quality related firm initiatives.

*Restrictions* typically involve CPAB limiting the audit firm's practice. This could include restricting the firm from taking on new reporting issuer clients, high risk reporting issuer clients or reporting issuer clients in particular industries.

*Sanctions* include, but are not limited to, a public censure and termination of a firm's status as a participating audit firm.

The initial decision to propose the imposition of enforcement actions is determined by CPAB's Enforcement Screening Panel, comprised of senior members of the CPAB Leadership Team. The panel reviews each matter and formulates a recommendation that is brought to CPAB's board for approval.

If the board decides to propose one or more enforcement action, formal notice is provided to the firm. The firm can challenge the proposed enforcement action(s) by petitioning for a review proceeding. If the firm does not petition for a review proceeding, the enforcement action(s) will come into effect and immediate compliance is required. In 2022, there were no such challenges to enforcement actions proposed and ultimately imposed by CPAB.



## External Outreach – Expanding the conversation about audit quality matters

We continue to be active in our outreach to a broad range of stakeholders, including investors, corporate directors, reporting issuer management, standard setters and regulators, both in Canada and internationally. These interactions improve our mutual awareness of current and emerging issues and improve our effectiveness. We were pleased to be able to have more in-person meetings during the year, which enriched the quality of the discussions. Key topics covered in 2022 included environmental, social and governance reporting, managing through economic uncertainty, talent management, audit firm culture, auditor independence, technology and cybersecurity.

### Connecting with audit committees

We continued to reach out to audit committee chairs of mid and small cap reporting issuers and those in emerging industries. In addition, we renewed existing relationships with larger cap reporting issuers.

We continued with our annual series of audit committee forums. In 2022, we held nine forums focused on the mining, energy, real estate, cannabis, crypto and financial services industries. A total of 151 participants attended these forums. We welcomed the return of in-person discussions with audit committee chairs as we experimented with a mix of hybrid, virtual and in-person meetings, including forums held online and in person in Vancouver, Calgary, Toronto and Montreal. During forums, in addition to roundtable discussions, we provided updates on our strategic priorities, raised topics relevant to audit quality and shared upcoming changes to CPAB’s regulatory disclosures.

Over the course of 2022, we engaged with directors of more than 300 reporting issuers representing a market capitalization of \$1.6 trillion. This included representatives of 61 small cap reporting issuers (market capitalization between \$100 million and \$500 million).





## Hearing from investors

During the year, we met with 16 investor organizations and continued our focus on Canada's largest institutional investors. Conversations between CPAB and investors lead to important information-sharing on issues that affect capital markets, including how economic uncertainty impacts valuations, liquidity management, going concern, fraud and environmental, social and governance reporting.

## Broadening our reach

In 2022, we had the opportunity to discuss our perspectives and have a dialogue with a broad range of Canadian and international stakeholders through in-person and virtual conferences and meetings.

Examples include:

- Co-hosting the annual roundtable on audit quality with the Office of the Superintendent of Financial Institutions (OSFI), including senior representatives from financial regulators, standard-setters and audit firms.
- Presenting at conferences for audit committees, business valuers, fraud examiners and audit firms.
- Returning to in-person meetings with other regulators in Canada and internationally, including audit regulators, securities commissions and provincial regulators.
- Active involvement as members of the Auditing and Assurance Standards Oversight Council and the Independent Review Committee on Standard Setting in Canada.
- Discussing our perspectives and inspection findings with Canadian and international standard setters.
- Meeting with business and accounting students at Canadian universities.

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