



November 24, 2023

VIA EMAIL

Canadian Public Accountability Board (“CPAB”)
150 York Street, Suite 900
Toronto, ON M5H 3S5
Email: consultation@cpab-ccrc.ca

Re: *Request for comment on the Canadian Public Accountability Board’s proposed rule changes (the “Proposal”)*

The Canadian Advocacy Council of CFA Societies Canada¹ (the “CAC”) appreciates the opportunity to provide the following general comments on the Proposal. In line with our comments on the 2021 consultation conducted by the CPAB, we remain strongly supportive of the rule changes in the Proposal and would encourage their adoption in line with the suggested two-phased approach. We believe the revised rules, particularly in relation to enhanced disclosures to reporting issuers and the public more broadly, will contribute positively to investor protection and are critical for the integrity of our capital markets.

Specifically, we are supportive of CPAB’s decision to request a rule change making mandatory the CPAB protocol for the disclosure of reporting issuer-specific significant inspection findings to the respective reporting issuer’s audit committee. We believe this change should be implemented across all reporting issuers, with no differentiation between venture and non-venture reporting issuers, or by any other categorization. This change will provide necessary information to the audit committees of reporting issuers for the execution of their prescribed role and fiduciary duties under law, and will hopefully translate to improvements in the audit committee’s oversight function and overall systemic governance of reporting issuers.

If there is a view that this will be overly onerous or burdensome on venture-listed reporting issuers or a similar other sub-segment of reporting issuers, or that it will affect their ability to retain auditors at reasonable pricing, we would encourage securities regulators to work with listing exchanges to examine the potential for other non-audit

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 20,000 Canadian CFA Charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors’ interests come first, markets function at their best, and economies grow. There are 200,000 CFA® charterholders worldwide in 160 markets. CFA Institute has ten offices worldwide, and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on LinkedIn and Twitter at @CFAINstitute.



assurance standards (such as a review standard) to become an acceptable standard for that certain identified segment of reporting issuers. We are strongly opposed to the introduction of any de facto two-tier audit standard of venture vs non-venture reporting issuers, or by any other similar categorization. We believe this would confuse the investing public and fundamentally violate the widely held conception of the integrity of audit as underpinning the veracity of the disclosure record of reporting issuers. Furthermore, we would view such a change as potentially materially degrading to the integrity of Canada's capital markets in the eyes of the global investment community.

We welcome CPAB's proposal to disclose individual firm inspection reports for every audit firm inspected by CPAB in a given year. We are in agreement with the structure of these individual firm inspection reports as illustrated in Appendix B of the Proposal. We believe that these reports should focus on disclosing any issue that would cause an objective end-user to question the integrity, independence, or validity of the reviewed firm's audits. To this end, we agree with the sample report's "significant findings" threshold, which is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream. We believe that not every deficiency will or should require public disclosure, and that disclosure of all deficiencies could risk masking the material issues that could legitimately erode public trust in the audit function relating to an issuer or specific firm. We would, however, encourage CPAB to consider expanding the definition of significant findings to include not just deficiencies related to material financial considerations, but also other material issues that may call into question the integrity of an audit, such as conflicts of interest concerns.

With respect to concerns regarding the potential misunderstanding of public inspection reports, we believe the description in Appendix B regarding CPAB's risk-based methodology for choosing files for inspection may help to put such reports in context for end users. As an additional measure to prevent the misappropriation or misinterpretation of inspection reports, we are supportive of CPAB's proposed rule change to prohibit audit firms from publishing or extracting portions of inspection reports without CPAB's consent.

We believe the changes outlined in the Proposal geared towards improving operational effectiveness and administrative practices will have a positive impact on CPAB's operations. The ability to maintain jurisdiction over a participating firm that purports to withdraw its registration during an enforcement action or investigatory process is essential to ensuring that audit firms cannot skirt responsibility by withdrawing their participation with CPAB to avoid exposure. This is a positive change to ensure accountability and is in alignment with other similar regulators such as the Canadian Investment Regulatory Organization in the securities context, which maintains jurisdiction over registered individuals and members for a set period of time after their resignation or termination.

Concluding Remarks

We strongly support the changes contained in the Proposal aimed at increasing regulatory transparency with respect to issues found in CPAB's review of audits conducted by participating audit firms. Integrity and reliability of audit is foundational to



the integrity of and confidence in Canadian capital markets. Information relevant to the work of audit firms trusted with reviewing the financial statements of Canadian public issuers is of great interest to the governing bodies of those issuers, their shareholders, and more widely to various stakeholders in Canada. Ensuring the integrity, consistency and aptitude of the firms conducting those audits and the audits themselves is therefore of the utmost importance.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in the future.

(Signed) *The Canadian Advocacy Council of
CFA Societies Canada*

**The Canadian Advocacy Council of
CFA Societies Canada**

November 24, 2023

VIA EMAIL: consultation@cpab-ccrc.ca

Canadian Public Accountability Board

RE: Request for comment on the Canadian Public Accountability Board's ("CPAB") proposed rule changes

The Canadian Centre for Audit Quality (CCAQ) is pleased to respond to CPAB's request for input to inform CPAB's approach to disclosing the results of its oversight of participating audit firms that audit Canadian reporting issuers. Enhanced transparency promotes trust and confidence in the public company audit profession in Canada, and we support disclosures relating to CPAB's inspection process where it improves audit quality and is in the public interest. To achieve this, the disclosures must be consistent, meaningful, and relevant, based on a fair and transparent inspection process.

Disclosure-related rule changes - Individual firm inspection reports

To increase the level of transparency of the results of its regulatory assessments, CPAB has proposed to issue individual audit firm inspection reports for every audit firm that is inspected. At the same time, CPAB has stated that it will continue to ensure adherence to applicable laws, including consideration of different legal requirements across Canada and in other jurisdictions, and as a result, CPAB may adapt its approach based on jurisdictional differences.

In its September 29, 2021 letter to CPAB, the Quebec CPA Order concluded that the proposed disclosure of individual firm inspection results would be contrary to the Code des professions (the "*Code*") and the Cooperation Agreement between the Ordre des comptables professionnels agréés du Québec and CPAB. We understand that the inclusion of inspection results of audits conducted by Quebec public accounting permit holders in an individual firm inspection report would also be contrary to the *Code*.

Excluding certain audit firms and/or audit clients would result in inconsistent and incomplete disclosure, undermining confidence in CPAB's individual firm reports. The nature and extent of CPAB's review and the corresponding firm report could be misunderstood and would be potentially misleading, which could be amplified because the audit file selection is risk based and is not representative of the entire population of reporting issuer audits performed by the firm. In circumstances where a lack of disclosure is the result of the exclusion of an audit firm's Quebec inspection results and/or certain audit clients, stakeholders may incorrectly assume that those firms with little or no disclosure have better audit quality, when this may not be the case. Inconsistent disclosure could undermine confidence, create confusion in the inspection process and may not be aligned with CPAB's goal of improving audit quality through disclosure.

Accordingly, we believe that the disclosure of individual firm level inspection reports should only proceed when all reporting issuer audits that are inspected by CPAB, including Quebec-based audits, are included in the process.

Other disclosure-related changes

We agree with CPAB amending its rules to make mandatory the disclosure of reporting issuer-specific significant inspection findings to the reporting issuer's audit committee, as set out in the 2014 Protocol. This will enhance transparency with audit committees and assist them in assessing audit quality and in discharging their responsibilities.

Individual public inspection reports

The following reflect our comments should CPAB proceed with reporting individual firm-level inspection results.

If audit files are excluded from the individual firm reports, disclosure should be made of the number of files inspected that have been excluded and the reasons for such exclusion, if permissible by law.

CPAB has noted on its website that most significant findings require the audit firm to carry out additional audit procedures, and the remaining findings require firms to add evidence to the audit file to show they had obtained sufficient and appropriate audit evidence with respect to a major balance sheet item or transaction stream. In disclosing the nature of the significant findings, we believe that it would be appropriate to carry forward the categorization of findings between those that require the completion of additional audit procedures and those that require additional evidence or documentation be added to the audit file. This will provide the reader with additional context on significant findings. We also recommend that CPAB disclose, with equal prominence, the number of restatements arising from the significant findings in the individual firm inspection reports, or a statement that there were no restatements that resulted from the significant findings disclosed.

In the description of "How firms respond to CPAB findings", CPAB indicates that the audit firm carries out additional audit procedures to identify material errors that could require restatement of the reporting issuer's financial statements¹. This wording should be clarified to describe the auditor's role more appropriately. The auditor performs additional procedures to address significant inspection findings to support the auditor's report previously issued. In rare or unusual cases, the auditor's report may have to be modified or withdrawn because of the completion of additional procedures. Management and those charged with governance are responsible for determining whether a restatement of the reporting issuer's financial statements is necessary.

Unintended consequences

Based on feedback received in its previous consultation, CPAB has committed to monitoring the potential unintended consequence of reducing a public company's choice of auditors as audit firms may not be willing to accept the risk of auditing more complex reporting issuers or those operating in emerging industries given the new proposed disclosure rules.

We understand there are concerns that additional disclosure of firm inspection findings could have negative consequences on some audit firms' private company assurance practices. We encourage CPAB to continue to evaluate unintended consequences of additional disclosure, including availability

¹ Similar wording is used in footnote 4 to Appendix B – Sample individual firm inspection report - and on CPAB's website in the Engagement Findings Report section under the heading - Significant Inspection Findings.

of auditors and the potential impact on the attractiveness of the profession.

CPAB also notes that other jurisdictions such as the United Kingdom, the United States, and Australia have had disclosure of individual firm results in place for several years without experiencing any significant negative economic impacts. This comparison does not consider the differences in the scope of companies inspected in the United Kingdom, the different regulatory environment in the United States, and the current disclosure policy in Australia.

The United Kingdom's Financial Reporting Council (FRC) limits the scope for their audit quality reviews outside the London Stock Exchange to companies admitted for trading on AIM or NEX (other than the Main Board) above a certain market capitalization².

The United States does not have a venture exchange, where issuers on that exchange are excluded from certain governance and reporting requirements that are otherwise followed by reporting issuers, and therefore the results will not be directly comparable for those companies.

In Australia, the ASIC (Australian Securities & Investments Commission), as of this most recent inspection cycle, no longer discloses individual firm inspection reports, but rather "prepares a private and confidential report for the firm inspected describing the inspection process, observations and findings and suggested remedial actions"³. The ASIC will periodically publish the results of inspections in a public surveillance report; however, this report will not identify the firms or their clients when summarizing the key observations and findings in ASIC's inspection programme.

In comparing other jurisdictions that provide disclosures, CPAB should consider factors specific to the Canadian market.

CPAB's Engagement Findings Report process (EFR)

In response to previous comments received by CPAB indicating stakeholders would like more information on, and transparency in relation to CPAB's EFR process, CPAB added further information on this process to its website. It is in the public interest that the EFR process be robust, rigorous, and transparent so that significant inspection findings are developed, assessed, and reported based on a complete set of facts and circumstances and the conclusions reached are transparent.

We understand that the decisions made by the EFR decision-making panel are based on summary documents prepared by a CPAB inspection team that the firms are not provided with an opportunity to comment upon or respond to prior to EFR decision-making panel review. Firms are also not provided with the opportunity to attend an EFR decision-making panel meeting. Procedural fairness is essential when a significant finding is to be published in an individual firm inspection report.

Providing an opportunity for firm review of the documentation provided to the EFR decision-making panel and the ability to provide feedback on such documentation prior to the EFR decision-making panel meeting would promote a stronger indication of fairness and transparency of the process. A sufficient review period would be necessary for the firms to respond appropriately. If an audit firm

² Companies within the scope of FRC review are UK companies admitted for trading on AIM or NEX (other than the Main Board) with a market capitalisation of more than €200m, using the formula in MiFID II.

<https://www.frc.org.uk/library/supervision/audit-quality-review/audit-quality-review-overview>

³ <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/audit-inspection-and-surveillance-programs/>

disagrees with CPAB's assessment of a possible deficiency, there should be a clear, documented, and transparent process that allows the firm to ensure that all relevant facts and judgments have been presented to the EFR decision-making panel.

Review hearing process

In the event that a firm disagrees with the outcome of the inspection process, a firm should have the opportunity to present its position to a review hearing panel. Where there is a disagreement between the firm and CPAB, the escalation process should be clearly defined so that all relevant facts and judgments have been brought forth and considered by the review hearing panel before final determinations are made.

We appreciate the work done by CPAB on this important area and for the opportunity to comment on these proposals. If you have any questions or require additional information, please contact me at michael.walke@ccaq-ccqa.com.

Yours very truly,



M. C. Walke
CEO
Canadian Centre for Audit Quality

The Canadian Centre for Audit Quality (CCAQ) is an independent not-for-profit Canadian corporation dedicated to supporting Canadian audit firms and public accountants in fulfilling their public interest role, and investors and other stakeholders with public policy and public interest issues. The CCAQ's founding members are the seven largest Canadian independent registered CPA accounting firms.



December 14, 2023

Canadian Public Accountability Board (CPAB)
150 York Street, Suite 900
Toronto, ON
M5H 3S5
consultation@cpab-ccrc.ca

Dear Sirs & Mesdames,

Re: Canadian Public Accountability Board's (CPAB) request for comment: proposed rule changes

The Canadian Coalition for Good Governance (CCGG) welcomes the opportunity to provide the Canadian Public Accountability Board (CPAB) with comments regarding proposed rule changes to facilitate implementation of CPAB's enhanced disclosure recommendations through targeted changes to CPAB's Rules.

CCGG's members are Canadian institutional investors that together manage approximately \$5.5 trillion in assets on behalf of pension funds, mutual fund unit holders, and other institutional and individual investors. CCGG promotes good governance practices, including the governance of environmental and social matters, at Canadian public companies and assists institutional investors in meeting their stewardship responsibilities. CCGG also works toward the improvement of the regulatory environment to best align the interests of boards and management with those of their investors and to increase the efficiency and effectiveness of the Canadian capital markets. A list of our Members is attached to this letter.

GENERAL COMMENTS

CPAB is Canada's independent audit regulator. It oversees accounting firms that audit Canadian reporting issuers. Pursuant to Canadian Securities Administrators' National Instrument – 52-108 Auditor Oversight, auditors of reporting issuers are required to be registered with CPAB and reporting issuers are required to issue financial statements that have been audited by a CPAB participating firm. CPAB conducts audit quality assessments through file inspections and quality management assessments of audit firms.

Through a series of public consultations beginning in 2021, CPAB gathered stakeholder feedback to inform potential changes to CPAB's Rules including with respect to disclosure of the results of its final inspection report for a participating audit firm.

One significant disclosure-related rule change CPAB is proposing is to make annual public disclosure of audit firm inspection reports for every audit firm inspected by CPAB in a given year. Additionally, CPAB is also proposing a rule change to implement mandatory disclosure to audit committees by audit firms of the CPAB annual public report and of any significant CPAB

inspection findings report made in respect of the reporting issuer that the audit committee oversees.

The proposal is to make mandatory the currently voluntary disclosure regime in the CPAB Protocol for the Audit Firm Communication of CPAB Inspection Findings with Audit Committees.

CPAB notes in the consultation document, that in response to the 2021 consultation both audit committee chairs and investors were supportive of the proposal to make disclosure to the audit committee mandatory.

CCGG is supportive of enhanced disclosure and transparency to audit committees of a reporting issuer of any CPAB inspection findings related to the audit of that reporting issuer. External auditors are required to report directly to the audit committee and oversight of the external auditor is one of the key responsibilities of an audit committee.¹ There are important implications for the governance of a reporting issuer if an audit committee is not aware of significant inspection findings made in respect of the audit conducted by its external auditor. Such disclosure should not be voluntary and at the discretion of the audit firm.

We thank you for your review and consideration of this letter. If you have any questions regarding the above, please contact our Chief Executive Officer, Catherine McCall, at cmccall@ccgg.ca or our Director of Policy Development, Sarah Neville at sneville@ccgg.ca.

Yours truly,

'Bruce Cooper'

Chair
Canadian Coalition for Good Governance

¹ OSC, National Instrument 52-110 – *Audit Committees*, para 2.2 and 2.1(3).

CCGG Members 2023

- Alberta Investment Management Corporation (AIMCo)
- Archdiocese of Toronto
- BlackRock Asset Management Canada Limited
- BMO Global Asset Management Inc.
- Burgundy Asset Management Ltd.
- Caisse de dépôt et placement du Québec
- Canada Pension Plan Investment Board (CPPIB)
- Canada Post Corporation Registered Pension Plan
- Capital Group Canada
- CIBC Asset Management Inc.
- Colleges of Applied Arts and Technology Pension Plan (CAAT)
- Connor, Clark & Lunn Investment Management Ltd.
- Desjardins Global Asset Management
- Electrical Industry Pension Trust Fund of Alberta
- Fiera Capital Corporation
- Fondation Lucie et André Chagnon
- Franklin Templeton Investments Corp.
- Galibier Capital Management Ltd.
- Healthcare of Ontario Pension Plan (HOOPP)
- Hillsdale Investment Management Inc.
- Investment Management Corporation of Ontario (IMCO)
- Industrial Alliance Investment Management Inc.
- Jarislowsky Fraser Limited
- Leith Wheeler Investment Counsel Ltd.
- Letko, Brousseau & Associates Inc.
- Lincluden Investment Management Limited
- Manulife Investment Management Limited
- NAV Canada Pension Plan
- Northwest & Ethical Investments L.P. (NEI Investments)
- Ontario Municipal Employee Retirement System (OMERS)
- Ontario Teachers' Pension Plan (OTPP)
- OP Trust
- PCJ Investment Counsel Ltd.
- Pension Plan of the United Church of Canada Pension Fund
- Provident10
- Public Sector Pension Investment Board (PSP Investments)
- QV Investors Inc.
- RBC Global Asset Management Inc.
- Régimes de retraite de la Société de transport de Montréal (STM)
- RPIA
- Scotia Global Asset Management
- Sionna Investment Managers Inc.
- SLC Management Canada
- State Street Global Advisors, Ltd. (SSgA)
- Summerhill Capital Management
- Teachers' Pension Plan Corporation of Newfoundland and Labrador
- TD Asset Management
- Teachers' Retirement Allowances Fund
- UBC Investment Management Trust Inc.
- University Pension Plan Ontario (UPP)
- University of Toronto Asset Management Corporation (UTAM)
- Vestcor Inc.
- York University Pension



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Reference: 00012900/000001

November 24, 2023

VIA EMAIL

Kristina Heese

General Counsel

Canadian Public Accountability Board

150 York Street, Suite 900

Toronto, Ontario M5H 3S5

Kristina.Heese@cpab-ccrc.ca

RE: Public consultation regarding CPAB proposed Rule amendments

Dear Ms. Heese,

This letter is in response to CPAB's request for comment on CPAB's proposed rule changes.

On behalf of Deloitte LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP (the "Firms"), we would like to thank you for the opportunity to participate and provide additional input into CPAB's proposed Rule amendments.

The Firms continue to be supportive of CPAB's efforts to increase transparency and support many of CPAB's proposed amendments. The Firms were pleased to see many of their earlier comments reflected in the updated amendments. However, several significant concerns remain unaddressed. Those concerns were set out in detail in the chart to our letter dated February 13, 2023 and will not be repeated here.

The Firms wish to highlight concerns on two remaining issues:

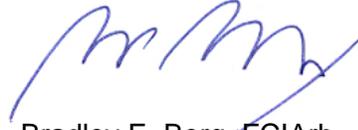
1. We understand that CPAB is considering parallel proposed changes with respect to Quebec. Especially for firms with national practices, it will be important to maintain consistency across the country to avoid confusion and ensure the highest quality in audit services for our clients and the public. The Firms remain very concerned about the prospect for having a bifurcated disclosure regime in Canada, particularly given the frequency with which an audit can involve CPAs registered with several provincial institutes, making it difficult to determine which audits would be subject to CPAB disclosure and which would not. Arguably, such a regime would also have the effect of skewing perception that audits by firms with greater Quebec representation have fewer inspection findings or are subject to less rigorous oversight, since there will be less frequent (or no) disclosure of significant findings for audits done by those firms.

2. Regarding the newly proposed Rule 413(b), the Firms appreciate CPAB's publication of the EFR process and details of certain procedural safeguards on its website. While this information is helpful, the procedural safeguards appear to be the same as previously in place. Given the significance that public disclosure of findings can have on an audit firm, the Firms believe it is important to bolster the procedural safeguards. In particular, under the current process, the only opportunity an audit firm has to communicate directly with the EFR panel is before the firm has an understanding of the panel's decision and the reasons for it.

The Firms propose that the process be updated to (i) ensure that in each case the background document prepared by the inspection team for the EFR panel is shared with the audit firm, such that the audit firm can comment directly on the backgrounder in its submission to the EFR panel, and (ii) require the EFR panel to issue its decision and the reasons supporting it to the audit firm for comment prior to issuing a final decision. Absent these safeguards, the audit firm has no opportunity to engage with the EFR panel's decision (including to provide additional information and improve the decision) and, instead, the matter moves directly to remediation.

The Firms wish to reserve their rights to participate in any further discussions or consultation processes. We also understand CPAB is pursuing legislative amendments. The Firms would appreciate the opportunity to further consider and provide comments once CPAB is able to share the details of the legislative amendments it may be seeking.

Yours very truly,



Bradley E. Berg, FCI Arb.

c: Doug McLeod, *Blakes*
Alysha Li, *Blakes*

November 24, 2023

Kristina Heese, General Counsel
Canadian Public Accountability Board
150 York Street, Suite 900
Toronto, Ontario M5H 3S5
Kristina.Heese@cpab-ccrc.ca

RE: Joint submission on CPAB's September 2023 proposed rule amendments ("Rules Amendments")

We are a group of annually inspected firms, specifically Dale Matheson Carr-Hilton LaBonte LLP, McGovern Hurley LLP and Smythe LLP (collectively "We" or "this Group"), who provide assurance services focussed on Canada's venture issuer market. Together, we presently audit approximately 520 public companies in Canada. We appreciate the ongoing dialogue with CPAB regarding the proposed rule changes and the changes made to date in response to our comments.

This Joint Submission is in response to CPAB's September 2023 proposed rule amendments.

Factual, fair and balanced public reporting

This Group is of the view that there is a need for CPAB to provide the public with factual, fair and balanced reporting in respect to the results of its annual practice inspections of reporting issuer audits conducted by audit firms registered with CPAB. This cannot be accomplished under the existing and proposed CPAB procedures. Decisions on the quality of an inspected audit are rendered by CPAB's Engagement Finding Report Panel (the "**EFR Panel**") without an affected firm:

- (i) having the opportunity to be apprised of the entirety of the case advanced by the CPAB inspection team; and
- (ii) without the firm being granted the right to appear before the EFR Panel to present its position, without ensuring all relevant information is provided to the EFR Panel for consideration, and without enabling the firm to respond to any comments tendered by the inspection team

before Findings are rendered and Recommendations for enforcement (if applicable) are determined by the EFR Panel. Under the existing and proposed rule amendments, procedural fairness is not afforded to firms whose audits are viewed by the inspection team as falling below the requisite standards of the profession.

Simply put, firms require the right to know the case to be met and be provided with the right to be heard before a substantive determination is made by the EFR Panel on audit quality.

Furthermore, CPAB's risk based selection approach to determining which audit files will be flagged for inspection does not give rise to a representative sampling of the audits conducted of a firm's reporting issuer client base. Nor are CPAB's inspection findings an accurate reflection of the overall caliber and quality of a firm's audit work performed for the entirety of its roster of reporting issuer clients. Without

proper context, reputational harm arises that may impact the public's trust of a named audit firm, a reporting issuer market segment, or the CPA profession as a whole.

This is even more concerning given the highly subjective nature of an EFR Panel's determination that an identified issue in an audit rises to the level of a significant finding (a material departure from the CPA profession's standards for reporting issuer audits), particularly given the lack of definition of the phrase "significant potential weaknesses or deficiencies".

Regulation fit for purpose

This Group also raises the crucial point that the CPAB rules and the proposed changes fail to take into consideration the nature of the Canadian venture issuer markets, which are subject to differential securities regulation than other reporting issuers.

This Group urges CPAB to address this imbalance.

Consideration should be given to recognizing the unique attributes inherent in the venture issuer segment of the public market, which should lead CPAB to design a customized model for oversight of audits conducted for venture stage reporting issuers.

This Group respectfully submits that these valid concerns ought to be given further consideration by CPAB in order to ensure that the public is accurately informed, and that CPAB's regulatory oversight is fully and fairly transparent to the audit firms over which it regulates.

Sincerely,

Dale Matheson Carr-Hilton LaBonte LLP, McGovern Hurley LLP and Smythe LLP

November 20, 2023

Canadian Public Accountability Board
Submitted via Email to: consultation@cpab-ccrc.ca

Re: Request for Comment on the Canadian Public Accountability Board's Proposed Rule Changes

FAIR Canada is pleased to provide comments in response to the above-referenced Consultation.

FAIR Canada is a national, independent, non-profit organization dedicated to being a catalyst for the advancement of the rights of investors and financial consumers in Canada. We advance our mission through outreach and education, public policy submissions to governments and regulators, and proactive identification of emerging issues. As part of our commitment to be a trusted, independent voice on issues that affect retail investors, we conduct research to hear directly from investors about their experiences and concerns. FAIR Canada has a reputation for independence, thoughtful public policy commentary, and repeatedly advancing the interests of retail investors and financial consumers.¹

A. Proposed Rule Changes – General Comments

We support the efforts of the Canadian Public Accountability Board (CPAB) to strengthen public confidence in the integrity of financial reporting by enhancing its oversight of public company auditors.

Investors' confidence in the integrity of public financial reporting is a key component of their overall confidence in Canada's capital markets. Without financial disclosure that fairly and accurately reports the financial performance and condition of publicly listed companies, investors cannot make informed investment or voting decisions.

Auditors play an important gatekeeping role in public financial reporting. Auditors that properly discharge their professional obligations ensure that financial reporting meets accepted audit assurance standards. Effective oversight of public company auditors is key to supporting investor confidence in these auditors and public financial reporting.

Our comment letter will focus on CPAB's proposals which most directly impact investors, namely:

- Disclosure related changes, and
- Participation and withdrawal changes.

¹ Visit www.faircanada.ca for more information.

B. Disclosure Related Changes

1. Mandatory Compliance with the Protocol

We strongly support CPAB amending its Rules to require that all participating firms comply with the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (the Protocol).² Mandating compliance with the Protocol will ensure that audit committees are better able to:

- Discharge their obligations in overseeing the work done by their auditors,
- Evaluate whether the financial statements may need to be reviewed and/or restated,
- Assess whether the reporting issuer should update and correct any public disclosure with respect to its financial reporting, and
- Assess whether the reporting issuer is getting value from the audit firm or whether it should continue to have confidence in the audit firm's work.

We advocated for a mandatory approach in our comment letter dated September 29, 2021,³ and are pleased to see that CPAB proposes to adopt this change. The fact that sharing of file-specific inspection findings with audit committees pursuant to the Protocol declined from 36 of 38 files in 2021 to only 34 of 44 files in 2022⁴ reinforces our view that a mandatory approach is now required.

2. Disclosure of Individual Firm Inspection Reports

We also support CPAB's proposal to publicly disclose individual firm inspection reports. Such disclosure has the following benefits:

- **Safeguards Investor Interests:** Increased awareness of significant findings for an audit firm could cause other audit committees that retained that firm to consider whether those findings might apply to their situation. This may include reviewing their financial statements to ensure they are accurate, and investors can continue to rely on them.
- **Promotes Audit Quality:** The increased public scrutiny should promote greater accountability and strengthen audit quality.
- **Supports Audit Engagement Decision-Making:** Such disclosure would provide information that may assist reporting issuers considering new audit engagements.
- **Aligns with international standards:** It would harmonize Canada's approach to overseeing auditors with other jurisdictions such as the U.S., U.K., and Australia.

Given CPAB's role in promoting audit quality and the benefits of transparency, we believe that individual firm inspection reports should be disclosed annually for each audit firm inspected by CPAB in a given year.

² [Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees](#) (CPAB: March 2014).

³ [FAIR Canada](#) (September 29, 2021), at 3-4.

⁴ [2022 Annual Report](#) (CPAB: March 2023), at 13.

a) Addressing Concerns with Disclosure

We recognize that publicizing individual firm inspection reports poses some risks and challenges, including that some auditors may be less inclined to take on complex audit files or audit clients that may present higher risks. These risks will be attenuated by the fact that the individual firm inspection reports will include the final response from the participating audit firm (assuming one is provided). In addition, some Canadian audit firms are also already subject to public reporting by foreign audit oversight bodies. For example, the Public Company Accounting Oversight Board (PCAOB) issues firm inspection reports for some Canadian audit firms. There is no evidence to suggest that such disclosure has adversely impacted the ability of issuers to retain audit firms.

In addition, we recognize there is a risk that investors and audit committees may not fully understand how to interpret the disclosure, or what “it says and does not say” about the financial statements audited by that audit firm. As previously noted, such risks can be managed through supplemental cautionary language and explanation in the disclosure.⁵

We are therefore pleased to see that CPAB is proposing to include plain language explanations regarding its sample selection methodology, including what the public should take away from the sample individual firm inspection report. We would recommend that CPAB also consider including:

- **A link to more detailed information:** CPAB could provide a link in its individual firm inspection reports to the “[Regulatory Assessments](#)” page of its website, which provides more information about CPAB’s Audit Quality Assessment program.
- **Additional graphics:** Graphics that highlight the number of audit files CPAB inspected versus the number of audit files not inspected, and the number of inspected audit files with significant findings versus the number of inspected audit files without significant findings, would help highlight that CPAB’s audit file inspections relate to a small proportion of the auditor’s audit files.
- **Venture Issuers:** To the extent there is a concern that firms that primarily audit venture issuers may have higher rates of significant findings, CPAB could consider adding cautionary language to its individual firm inspection reports regarding the challenges of auditing such clients.

b) Enhancing Disclosure

We appreciate the proposed rule change permitting CPAB to disclose individual firm inspection reports would give CPAB the discretion to determine the form and content of such reports within certain parameters. We support CPAB’s proposed sample individual firm inspection report as an initial step in providing such disclosure. However, we encourage CPAB to consider including additional disclosure that would provide investors and audit committees with context that would enable them to better understand and benefit from it.

CPAB could make its individual firm inspection reports more useful for investors and audit committees by including information regarding the nature of any:

⁵ [FAIR Canada](#) (September 29, 2021), at 4-5.

- Significant findings,
- CPAB recommendations,
- Remediation undertaken by the audit firm,
- Enforcement action and the reasons for the action, and
- Potential material misstatements in financial reporting.

C. Participation and Withdrawal Changes

We support the proposed introduction of a new Rule 217 designed to enhance CPAB’s operational effectiveness. Proposed Rule 217 would provide CPAB with additional powers, including the right to terminate an audit firm’s status as a participating audit firm for material non-compliance with the registration or participation requirements, or for providing inaccurate or incomplete information to CPAB. The new rule would bring CPAB’s powers more in line with those of the PCAOB in the U.S., which should support continued or increased reliance on each other’s inspection programs.

We also support CPAB’s proposed amendments to Rule 254 that would enable it to retain jurisdiction to inspect, investigate, or take enforcement action against audit firms that may withdraw during such oversight processes, or for conduct that occurs while the firm was registered as a CPAB participating firm. A participating audit firm should not be able to evade a finding of misconduct or the imposition of an enforcement action simply by terminating or allowing the participation agreement to lapse. This approach will promote confidence in CPAB’s effectiveness and ensure that its investigatory program cannot be undermined by a participating audit firm’s decision to withdraw its participation.

In our view, CPAB’s proposed rule change would plug an enforcement gap that could undermine investor and issuer confidence in CPAB’s oversight program.

Thank you for considering our comments on this important issue. We welcome any further opportunities to advance efforts that improve outcomes for investors. We intend to post our submission on the FAIR Canada website and have no concerns with CPAB publishing it on its website. We would be pleased to discuss our submission with you. Please contact Jean-Paul Bureaud, Executive Director, at jp.bureaud@faircanada.ca or Bruce McPherson, Policy Counsel, at bruce.mcpherson@faircanada.ca.

Sincerely,



Jean-Paul Bureaud
President, CEO and Executive Director
FAIR Canada | Canadian Foundation for Advancement of Investor Rights

INVESTOR ADVISORY PANEL

November 24, 2023

Canadian Public Accountability Board
150 York St. Suite 900
Toronto, ON
M5H 3S5
consultation@cpab-ccrc.ca

Re: Comment on the Canadian Public Accountability Board’s proposed rule changes

On behalf of the Investor Advisory Panel (the “Panel”), I wish to thank you for this opportunity to comment on the Canadian Public Accountability Board (the “Board”) proposal to increase the transparency of its assessments of audit firms and related changes (the “proposed changes”).

The Panel’s mandate

The Panel is an initiative of the Ontario Securities Commission (“OSC”) to ensure investor concerns and voices are represented in the OSC’s policy development and rulemaking process. Our mandate is to solicit and articulate the views of investors on regulatory initiatives that have investor protection implications.

The proposed changes

The Board has proposed changes to increase the transparency of its assessments of audit firms and other changes, as detailed in its [consultation document](#). The most significant proposed change is for the Board to publicly disclose individual firm inspection reports (“inspection reports”) for every audit firm inspected by the Board each year. The Board has also proposed to make mandatory a Board protocol that governs the disclosure of significant inspection findings to the audit committees of affected reporting issuers.

The Panel’s comments on the proposed changes

1. Disclosure-related changes:

The Panel supports the Board's goal of improving audit quality by motivating audit firms to address audit deficiencies. It also supports increasing transparency so that investors and other stakeholders have the information they need to make informed investment decisions.

For this reason, the Panel supports the Board's decision to focus its inspections on high-risk audit areas of complex reporting issuers and areas where an audit firm may have less expertise. This approach is most likely to help auditors improve their work to the ultimate benefit of reporting issuers and investors.

For this same reason, the Panel supports the Board releasing its inspection reports to the concerned audit firms and demanding that they rectify any issues within 180 days. The Panel also supports the Board publishing inspection reports in the form disclosed at [Appendix B](#). This approach creates an incentive for audit firms to promptly address audit issues, and it enables reporting issuers and investors to identify firms that present audit issues and act on that information if they so choose.

The Panel further supports a mandatory protocol that requires audit firms to release its inspection reports to the audit committees of affected reporting issuers. Proactive and mandated disclosure will ensure audit committees are equipped to ask further questions of the audit firm, rectify internal practices and engage a different audit firm if need be.

The Panel also recommends that the Board issue press releases that announce and link to the publication of inspection reports. In the absence of efforts to generate awareness of its inspection reports, the investing public is unlikely to know of or be in a position to make use of the inspection reports.

2. Changes to improve operational effectiveness and administrative practices

a. Review hearing process changes:

The Panel supports rules enabling review hearing officers to impose interim enforcement actions on firms before a hearing concludes. Such a measure is warranted where the Board believes there is a risk to the public that must be addressed before a final decision is issued. The Panel also supports the Board publishing review panel decisions to further market transparency and have a deterrent effect for the audit industry.

b. Participation and withdrawal changes:

The Panel supports the Board retaining its jurisdiction over an audit firm where the firm withdraws its participation while the Board is conducting an investigation, or where the Board's investigation concerns behaviour that occurred while the firm was a participating firm. This rule would ensure audit firms lack the ability to force the early termination of investigations at the very moment they are most needed.

c. Housekeeping changes:

The Panel has no comments on the proposed housekeeping changes.

3. Other comments you would like to provide

The Panel has no further comments.

We thank you again for the opportunity to comment on the proposed changes. We would be happy to clarify or elaborate on our comments should the need arise.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ilana Singer', with a stylized, cursive script.

Ilana Singer
Chair, OSC Investor Advisory Panel

November 24, 2023

To: Consultation@cpab-ccrc.ca

RE: CPAB 2023 proposed rule amendments (“Rules Amendments”)

We submit that further analysis is required of the proposed rule changes to ensure they are well designed to serve the unique needs to Canada’s venture market. Moreover, enhancements to CPAB processes are necessary regardless of the proposed rules.

Our response below comments on:

1. Designing auditor regulation to serve Canada’s venture market; and
2. Factual, fair and balanced public reporting.

Auditor regulation for the venture market

The proposed rule changes should be reconsidered in the context of the venture market.

1. Access to early-stage capital is a priority for many provincial governments. The venture markets are an important part of our innovation economy with distinct securities regulation, a tendency to attract accredited investors, lean overhead costs, and a focus on operations. Increasing audit requirements impose a disproportionate burden on management of small issuers and divert their focus.
 - We continue to highlight the UK approach to the Alternative Investment Market as a contemporary model for audit regulation of a venture market that is aligned with securities regulation and capital formation. We strongly encourage CPAB to explore adopting this model in Canada.
 - It is not clear whether the proposed rules are consistent with conclusions from previous CPAB and CPA Canada audit quality roundtables. We recommend a roundtable approach to gather a balanced perspective around the proposed rule changes including a venture issuer focus group.
2. The necessary analysis of costs, benefits and unintended consequences is largely absent from CPAB’s proposal.
 - More and more venture issuer audits have been shifting from annually inspected firms which have a high regulatory burden, to less frequently inspected firms. This may be counterproductive to improving transparency. Moreover, it is not established whether this shift is improving or harming audit quality and access to early-stage capital.

3. We understand the proposed rules are incompatible with legislation in Québec. The impact of selective inclusion of findings in public reporting may result in misinterpretation of deficiency rates and the exclusion of some firms. CPAB should ensure its proposed rules remain nationally consistent and avoid creating division.

Factual, fair and balanced public reporting

We continue to highlight the shortfall in due process with regard to CPAB inspection findings. Specifically, there is inadequate due process over file inspection findings (the EFR panel), and we are concerned this may extend to the new standards on quality management.

1. Currently EFR Panel decisions are based on summary documents prepared by CPAB staff that the firms are not permitted to read or respond to. Firms are not permitted to attend the EFR Panel meeting.
 - Similar to the PCAOB's approach, the best point to ensure a correct fact pattern is prior to an initial EFR decision. Firm review of the EFR Panel documentation and the ability to provide an alternate viewpoint is a cost-effective, expedient, and necessary enhancement.
 - Without access to the EFR Panel documentation and discussion, firms are unable to evaluate whether to request a review proceeding. The lack of such proceedings is not an indicator that firms agree with the EFR Panel's decisions.
 - As EFR Panel deliberations involve complex professional judgments, the membership and expertise of the EFR Panel is critical to public trust. The public should have information about the appointment process, recency and depth of auditing expertise of the members of the EFR Panel, including experience with venture issuers.
2. As CPAB's approach to file inspection selections is risk-biased, findings are more likely to be negative than representative. Balanced and contextualized public reporting is necessary to avoid harm to public trust and to the reputation of an individual, firm, market segment, and the CPA profession.
 - Equally prominent use of less subjective data points is necessary such as the percentage of files inspected that result in restatements.
 - CPAB conclusions about a firm may differ from those of other audit regulators and audit committees. Regular calibration of CPAB findings should be undertaken including seeking feedback from venture audit committees, correlation against restatements and against CPA regulatory conclusions.
 - The proposed rules continue to use the vague term "significant potential weaknesses or deficiencies" but omit a corresponding definition.

3. CPAB should revisit its (mandatory) recommendations process to ensure they are well-considered, cost-effective and have reasonable timelines. These recommendations are frequently issued just prior to reporting season requiring firms to split focus at the most critical stage of the audit cycle.

It is not clear that the proposed rules would serve the needs of the national venture market at an appropriate cost. Further CPAB processes require enhancement to support fair and balanced public reporting. Finally, as it is primarily risk-biased information available, it is important to reflect on the proportionate benefits of regulatory burden for the remaining population of issuers.

Sincerely,
MNP LLP

Montréal, le 15 novembre 2023

PAR COURRIEL

Madame Carol A. Paradine, FCPA, FCA
Chef de la direction
Conseil canadien sur la reddition de comptes
150, rue York, bureau 900
Toronto (Ontario)
M5H 3S5

Consultation publique sur les modifications proposées aux règles du Conseil canadien sur la reddition de comptes : Commentaires de l'Ordre des comptables professionnels agréés du Québec

Chère Carol,

L'Ordre des comptables professionnels agréés du Québec (l'Ordre) souhaite vous communiquer ses commentaires dans le cadre de la consultation publique lancée le 13 septembre dernier portant sur les modifications proposées aux règles du Conseil canadien sur la reddition de comptes (CCRC).

L'Ordre est un ordre professionnel au sens du *Code des professions*, ayant comme mission principale la protection du public. Il encadre plus de 41 000 membres, ce qui en fait le troisième ordre professionnel en importance au Québec.

Contexte

L'Ordre est également un ordre à exercice exclusif, c'est-à-dire que seules les personnes physiques qui, au Québec, détiennent le titre de CPA auditeur sont habilitées à y exercer la comptabilité publique. L'Ordre encadre la pratique professionnelle de personnes physiques, et non celle des personnes morales que sont les cabinets d'auditeurs. Par le Règlement sur l'exercice en société des comptables professionnels agréés, l'Ordre encadre également l'exercice en société de ses membres.

À l'instar des autres ordres professionnels québécois, l'Ordre est tenu d'exercer des fonctions précises en matière de délivrance des permis d'exercice aux candidats à la profession, de tenue du tableau de l'Ordre, de surveillance de l'exercice de la profession, de dépistage de la pratique illégale et d'encadrement disciplinaire. Il est notamment assujéti à un ensemble de règles prévues à la Loi sur les comptables professionnels agréés au Code des professions et il est assujéti à la surveillance de l'Office des professions et ultimement, du Gouvernement du Québec.

Au Québec, tous les professionnels membres d'un ordre doivent respecter le secret de tout renseignement de nature confidentielle portés à leur connaissance dans l'exercice de leur profession. Les membres de l'Ordre ont donc l'obligation de veiller à la protection du secret professionnel en vertu de l'article 60.4 du Code des professions. Le droit à la protection du secret professionnel est par ailleurs inscrit à l'article 9 de la Charte des droits et libertés de la personne.

L'Ordre et le CCRC ont conclu l'Entente de collaboration entre l'Ordre des comptables professionnels agréés du Québec et le Conseil canadien sur la reddition de comptes conformément aux articles 9 et 10 de la Loi sur les comptables professionnels agréés du Québec. Cette entente encadre l'accès au contenu des dossiers et le processus d'inspection mené par le CCRC au Québec. Cette entente, qui fait l'objet d'un renouvellement aux cinq ans, est assujéti à l'approbation du gouvernement (décret) lui conférant ainsi un statut réglementaire.

L'Entente a pour effet de donner au CCRC accès aux informations protégées par le secret professionnel. Les activités d'inspection du CCRC sont assimilées aux activités d'inspection professionnelles de l'Ordre des CPA et assujetties aux mêmes règles. L'Entente prévoit notamment, la confidentialité des informations obtenues dans le cadre de cette inspection, sous réserve des modalités qui y sont prévues.

Au Québec, le processus d'inspection professionnel des membres des 46 ordres professionnels demeure confidentiel. Une attention particulière est accordée à la protection de la confidentialité des dossiers et de leur contenu. Les limitations d'exercice et les radiations imposées aux membres et pouvant découler du processus sont publiées au Tableau de l'Ordre, au terme du processus.

L'Ordre ne permet pas à ses membres d'utiliser, en tout ou en partie, les rapports d'inspection professionnelle pour des fins autres que celles auxquelles ils sont destinés. Le processus d'inspection a pour objet de soutenir le membre dans le développement de ses compétences professionnelles et d'assurer que sa pratique soit conforme aux normes en vigueur. Un échantillon des dossiers est ainsi analysé. Le rapport d'inspection est un indicateur de la qualité du travail ou des compétences d'un membre, mais il ne constitue pas un gage de cette qualité de la part de l'Ordre.

De plus, l'Ordre considère important de rappeler l'entrée en vigueur de la [Loi modernisant des dispositions législatives en matière de protection des renseignements personnels \(Loi 25\)](#) et des nouvelles obligations qu'elle contient, notamment à l'égard du partage inter juridictionnel d'informations de nature privilégiées. L'Ordre n'a toutefois pas procédé à une évaluation de l'impact des modifications suggérées par le CCRC à cet égard.

C'est donc dans le contexte spécifique de cet encadrement législatif et réglementaire québécois que l'Ordre a manifesté des réserves quant à la publication des résultats d'inspection par le CCRC.

Proposition de modification réglementaire

Sur le fond, et considérant ce qui précède, l'Ordre des CPA se déclare satisfait du libellé proposé à l'article **413** et de la volonté clairement exprimée par le CCRC de veiller au respect du cadre législatif et réglementaire applicable dans chaque province et au respect de la confidentialité de l'identité des émetteurs assujettis.

Les informations publiées ne devraient pas permettre d'identifier directement ou indirectement les émetteurs assujettis dont les dossiers ont fait l'objet d'une inspection du CCRC. Non seulement cela contreviendrait à l'obligation de protéger le secret professionnel, mais l'Ordre craint également que cette information ne mène à des déductions erronées pouvant avoir un impact non souhaité sur le marché, et sur la protection du public investisseur. Nous avons malheureusement eu un avant-goût de la situation lors de la première publication d'un rapport du CCRC l'an dernier, repris dans un grand quotidien. L'article se fondait sur hypothèse erronée sur l'identité du client dont le dossier d'audit avait fait l'objet d'une inspection, et pour lequel des lacunes avaient été identifiées.

Le CCRC doit tout mettre en œuvre afin d'éviter que le recoupement d'informations contenues au rapport ne permette l'identification du client, ou encore que des conclusions erronées en soient tirées quant à son identité et qu'un préjudice ne soit causé. Le marché canadien est plus modeste et il est très différent des marchés américains ou encore britanniques où les émetteurs assujettis sont plus nombreux et leur identification est plus complexe.

En ce sens, l'utilisation des termes « s'efforcera » utilisée à l'article 413 nous apparaît donc bien faible. Nous suggérons un libellé plus fort.

L'Ordre des CPA s'oppose à l'utilisation et à la publication, en tout, ou en partie des résultats des rapports d'inspection par les cabinets d'audit comme prévu au dernier paragraphe de l'article 413. Les inspections du CCRC portent sur un échantillon de dossiers d'une clientèle par ailleurs nichée. Tout comme les inspections menées par l'Ordre, elles ne portent pas sur l'ensemble du travail accompli par un cabinet au bénéfice de l'ensemble de la clientèle desservie.

Conséquemment, la publication en tout ou en partie d'un rapport d'inspection serait susceptible d'induire le public en erreur en créant un décalage avec la réalité et les attentes du lecteur. Une publication basée sur un échantillonnage des dossiers d'un cabinet ne saurait constituer le reflet de l'ensemble des mandats exécutés par les membres œuvrant au sein de ce cabinet.

Cette pratique pourrait par ailleurs mener à une instrumentalisation de l'inspection du CCRC à des fins promotionnelles. La protection du public, celle du public investisseur, et de l'intérêt public ne seraient pas bien servies.

L'Ordre s'inquiète également sur l'impact des nouvelles pratiques du CCRC sur le délai d'émission d'un rapport final. On peut facilement s'imaginer la vigueur avec laquelle pourrait être contestée la publication d'information pouvant avoir un impact réputationnel important. D'éventuelles contestations relatives au contenu des rapports seraient de nature à ralentir le processus d'amélioration ou de correction du cabinet d'audit et ne seraient pas dans l'intérêt de la protection du public.

Conclusion

Il importe de réitérer que les commentaires de l'Ordre des CPA sont formulés en considération de la protection du public, principale mission de l'Ordre, de la législation et de la réglementation applicables aux ordres professionnels, à leurs membres et à l'encadrement des activités du CCRC au Québec. Le respect des spécificités des juridictions où le CCRC est appelé à mener ses activités est impératif. À cet égard, il serait périlleux de vouloir calquer, sans modulation, les pratiques du PCAOB ou d'autres organismes de réglementation de l'audit qui évoluent dans un cadre législatif ou dans des marchés complètement différents.

Nous saluons la volonté du CCRC de resserrer ses mesures de surveillance et de transparence et, ainsi, de participer activement à l'amélioration de qualité de l'audit des émetteurs assujettis. Il faut néanmoins s'assurer que les moyens mis en place n'ouvrent pas la porte à d'autres problématiques. L'Ordre demeure un allié engagé du CCRC dans l'atteinte de cet objectif.

Je te prie de recevoir, chère Carol, mes salutations distinguées.

La présidente et chef de la direction,



Geneviève Mottard, CPA



November 24, 2023

By email: consultation@cpab-ccrc.ca

Jeremy Justin
Vice President, External Outreach and Chief Risk Officer

Kristina Heese
General Counsel

Dear Jeremy Justin and Kristina Heese:

Re: Request for comment on the Canadian Public Accountability Board's proposed rule change

Thank you for the opportunity to comment on the Canadian Public Accountability Board's (CPAB) proposed rule changes published in September 2023. The Office of the Superintendent of Financial Institutions (OSFI) is Canada's prudential regulator and supervisor of federally regulated financial institutions (FRFIs) and private pension plans. OSFI acts to protect depositors, policyholders, financial institution creditors and pension plan members, while allowing financial institutions to compete and take reasonable risks.

OSFI values high audit quality as our oversight of FRFIs relies on external auditors' opinion for the fairness of financial statements. In addition, OSFI's mandate includes monitoring and evaluating system-wide or sectoral developments that may have a negative impact on the financial condition of FRFIs. Our interest in CPAB's regulatory disclosures extends beyond FRFIs to all public accounting firms that audit Canadian reporting issuers.

OSFI supports CPAB's proposed rule changes as they contribute to enhancing audit quality, protecting the public interest, and increasing public confidence in financial reporting. Specifically, we strongly support:

- disclosing individual firm inspection reports for every audit firm inspected by CPAB within a given year, and
- mandating the CPAB protocol for disclosure of reporting issuer specific significant inspection findings to the reporting issuer's audit committees.

If you wish to discuss the contents of this letter further, Kenneth Leung, Managing Director, Accounting Policy Division or Kathy Huynh, Director, Accounting Policy Division would be pleased to meet with you.

Yours sincerely,

Tolga Yalkin
Assistant Superintendent
Regulatory Response Sector

December 5, 2023

Canadian Public Accountability Board
150 York Street, Suite 900
Toronto, Ontario, M5H 3S5

This letter is in response to the September 2023 “Request for comment on the Canadian Public Accountability Board’s (“CPAB”) proposed rule changes”. The officers and directors of small cap (under \$250 million) reporting issuers listed in Appendix A have been consulted in preparing this submission.

Since CPAB’s inception in 2003 it has worked collaboratively with the accounting profession, the audit firms, similar bodies around the world and others to foster audit quality and transparency. Audit quality has improved significantly over this period with much of that improvement attributable to CPAB’s leadership not just as a regulator but through education and communication. This emphasis on education and communication through thought leadership, educational forums and how it conducts its work with audit committees, audit firms and audit partners is no doubt a major driver for this improvement. CPAB is encouraged to continue this focus on education, communication, and collaboration, including in how it manages its relationships with the audit firms and audit partners.

Our concern is the unintended impact that disclosure changes related to audit firm inspection reports may, in the long run, undermine the drive for quality. The recent and proposed changes may result in certain firms reducing their portfolio of public company audits (or eliminating public company engagements), reduced recruitment to and retention of individuals in the audit profession or strained relations with audit firms. There is support for the emphasis on audit quality but a belief that education, communication, and collaboration is the best long-term approach to fostering audit quality while preserving thriving public capital markets. The potential unintended cost to the audit profession and to small cap reporting issuers outlined in this submission cannot be overlooked.

This submission addresses general matters of principle rather than the specifics of the proposed rule changes.

(i) Proportionality

Prior respondents have raised this principle as noted from the applicable highlights in Appendix B. Appendix C documents the significant size differences between TSX, TSXV and CSE. This submission asks that CPAB further consider modifying the proposed rule changes to apply differently to Venture and Non-Venture issuers, consistent with the principle of proportionality as reflected in existing continuous disclosure legislation (e.g., National Instrument 51-102). One possible revision to the proposed rule changes may be a deferral (see below) of Phase 2 for TSXV and CSE reporting issuers. It is noted that in the UK, regulation of audit firms by the Financial Reporting Council (to be replaced by the Audit, Reporting and Governance Authority) excludes issuers listed on the Alternative Investment Market except for those deemed to be Public Interest Entities due to size (Market cap > 200 million Euros + annual turnover > 750 million pounds + # of employees > 750). Appendix D makes the general case for proportionality as a principle to guide all policy decisions. Consistent with the principle of proportionality, CPAB is encouraged to seek Board Members and staff with significant small cap reporting issuer experience, for an appropriate portion of its positions.

(ii) Deferral

Prior respondents have raised the issue of audit firm availability and reduced audit competition as noted in Appendix B. This is a significant concern for small cap reporting issuers. In response, CPAB has focused on availability and notes that fewer than ten reporting issuers appear to be without an audit firm. Availability is critical but other very negative factors are now apparent:

- Many reporting issuers dismissed by their audit firms have been forced to incur the costs and hassle of issuing a request for proposal (RFP) to engage a new audit firm as audit firms have been reducing their portfolios of

reporting issuers. Since January of 2022 the annually inspected audit firms have reduced their collective portfolios by over 200 audits,

- Some reporting issuers have found it necessary to make changes solely to attract an audit firm – e.g., change of year-end, and/or
- In addition to the costs of the above, audit fees are increasing significantly and well above inflation.

This submission recommends that CPAB defer Phase 2 for at least two and preferably three years to allow sufficient time to fully assess these risks stemming from Phase 1. Canada has benefited greatly from its small cap reporting issuers, as documented in Appendix C. These small cap reporting issuers are disproportionately affected by the negative factors listed above. Several of the directors and officers listed in Appendix A have had firsthand experience dealing with a forced change of auditors.

While less than ten reporting issuers are without audit firms at this time, approximately two hundred TSXV and CSE issuers were subject to management cease trade orders in 2023 due to delays in finalizing audited annual financial statements. The delays were primarily due to audit firms not able to deliver on time as a result of reduced staff resources or the audit firm resigning after the issuer's yearend as the firm consciously reduced their portfolio of reporting issuers.

The audit firms are also dealing with a growing shortage of staff and a worrisome decline in accounting majors in our universities. This is a critical factor affecting the availability and costs of auditors (now and in the future) and more importantly, it will have a negative impact on audit quality over the longer term. The public naming of sanctioned audit firms may further reduce interest in audit careers and exacerbate the recruiting and retention challenges faced by the audit firms. As well as allowing a full assessment of auditor availability and costs, a deferral allows time to fully assess the staffing issue, which will also be significantly impacted by the pending demand for ESG reporting and assurance.

(iii) Disclosures to audit committees

As a general principle, this paper is supportive of the existing and proposed disclosures to audit committees and believes this will provide strong motivation for audit firm improvement.

(iv) Last resort

The principle of “name and shame” should be a last resort after CPAB has exhausted all other avenues to foster audit quality. Pervasive changes to the audit firms’ quality control systems, staff training, cultural factors, and other core elements of quality take time. Is CPAB confident that it has allowed sufficient time for such changes before evoking public disclosure? Audit firms with which this group of officers and directors interact believe there has been a vast improvement in audit quality over the approximately two decades that CPAB has been in place. Audits require the exercise of judgment at every stage and therefore the assessment of overall quality is highly subjective and no doubt there is a spectrum of acceptable outcomes with perfection an elusive objective. After these two decades of substantial improvement, it may be that any further small gains in quality are not worth the high incremental costs.

The pervasive impact on reputation of an audit firm subjected to “name and shame” may result in one or more of these or other audit firms significantly downsizing their public company audit portfolios or potentially exiting the market altogether. Already there has been a large downsizing by the annually inspected firms as described in Appendix D. The call for a 3-year deferral of phase 2 will allow time to determine if the market is further impacted by continued shifting of the audit portfolios and the risk of one or more firms exiting the market. It would be very unfortunate if access to the public capital markets was a function of audit firm accessibility, rather than more substantive factors.

Thank you for the opportunity to provide input.

Yours truly



Steven Glover FCPA

Appendices

Appendix A – Officers and Directors of Small Cap Reporting Issuers Consulted

Appendix B - Extracts from previous CPAB consultations

Appendix C – Profile of Canada’s capital markets

Appendix D – Comments regarding public interest issues and proportionality

Appendix A

Officers and Directors of Small Cap Reporting Issuers Consulted

- Steven Glover, Director and Chair, Audit Committee, Genesis Land Development Corp. (GDC - TSX)
- David Antony, Director and Chair, Audit Committee, Grounded Lithium Corp (GRD – TSXV)
- Steve Bjornson, Director and Chair, Audit Committee, Cematrix Corporation (CVX – TSXV)
- Ruth Chun, Director, Board Chair and Chair, Audit Committee, Slang Worldwide Inc. (SLNG – CSE)
- Mahendra Naik, Director, Board Chair and Chair, Audit Committee, Fortune Minerals Ltd. (FT – TSX)
- Brian McGill, Director and Chair, Audit Committee, Zedcor Inc. (ZDC – TSXV)
- Steve Vanry, Director and Chair, Audit Committee, DeepMarkit Corp. (MKT – TSXV)
- Doug Thomson, Director, Board Chair and Chair, Audit Committee, OneSoft Solutions Inc. (OSS-TSXV).
- Glenn Ives, Director and Chair, Audit Committee, NervGen Pharma Corp. (NGEN – TSXV)
- Max Satel – Chief Financial Officer, Battery Mineral Resources Corp. (BMR – TSXV)

Appendix B

Extracts from previous rounds of CPAB consultations on public disclosure (bold emphasis by author)

- (i) CPAB Publication - Update on feedback received and next steps for CPAB’s disclosures consultation – March 2022
- Respondents that were not supportive of these disclosures raised the following concerns:
- Public disclosure of inspection findings could lead to some **audit firms exiting** the audit of reporting issuers. This exit of certain firms could make it more challenging for some reporting issuers to engage an auditor.
 - Some respondents also questioned whether it would be beneficial to have a different approach to inspection findings for **reporting issuers listed on stock exchanges other than the TSX** reflecting different governance requirements for those companies
- (ii) CPAB’s disclosure recommendations - September 2022
- Some respondents did express concern that individual public inspection reports could have the following impacts:
- (i) **Reduce audit competition** and increase audit concentration as firms may be reticent to audit reporting issuers.
 - (ii) Create difficulties for reporting issuers in more complex industries (e.g., crypto companies, cannabis companies) who are trying to find auditors where there have been historically higher inspection findings.
 - (iii) A firm’s stakeholders may not understand CPAB’s risk-based selection process for audit file inspections and therefore could inappropriately assess a firm’s overall audit quality based on a single or limited data point.

Appendix C

Canada’s Unique and Successful Small Cap Capital Market

Small cap reporting issuers are Important to Canada

- Canada is unique in the number, diversity and roles played by small cap reporting issuers.
- Small cap reporting issuers serve as incubators for innovative technologies, new resource development, and new ways of doing business. They provide avenues for growth for entrepreneurs and risk takers that larger or more established entities cannot replicate.
- A 2023 publication of TMX entitled *Venture Forward – Commitments to Accelerate the Evolution of Canada’s Public Venture Market* states: “*TSX Venture Exchange, or TSXV, is the world’s leading ecosystem for launching early-stage companies, funding primary growth, and providing investors access to unique small cap investment opportunities.*”
- This dynamic group of companies are the source of innovation and growth crucial to Canada’s future.

TSX, TSXV and CSE

Below is background information regarding the TSX, TSXV and CSE. Key is the size distinction between the TSX, TSXV and CSE as evidenced by the following average market capitalization:

- *TSX (Nov 1, 2023, excludes ETF's) - \$4.1 billion*
- *TSXV (Nov 1, 2023) - \$39.0 million*
- *CSE (Nov 30, 2023)- \$22.2 million*

These differences in size between the TSX and TSXV/CSE reporting issuers raise the issue of proportionality. Current securities regulation does utilize “venture” and “non-venture” to apply proportionate regulation, e.g., filing deadlines, governance requirements, etc. Is there a further opportunity to apply the principle of proportionality? Is the principle appropriately applied in auditor oversight?

The TMX Group provides the following background information:

- *“Toronto Stock Exchange (TSX) ranks as one of the 10 largest stock exchanges in the world in terms of market capitalization. Investors around the world want exposure to Canadian-listed stocks, as the country boasts one of the most secure financial and banking systems in the world, a strong middle class, political stability, and an unrivaled entrepreneurial spirit.*
- *Behind TSX is a smaller TSX Venture Exchange (TSXV) that caters exclusively to small and early-stage companies looking for alternative options to private equity or venture capital funding.*
- *Unlike many premier markets, TSX and TSXV cater to small- and mid-market companies looking for access to growth capital.*
- *The average financing size for new TSX-listed companies in 2019 was \$68 million, while the smaller junior exchange oversaw an average financing size of \$2.7 million.*
- *Given Canada’s close proximity to and economic ties with the United States, global companies also view Canada as a venue for reaching U.S. investors, both individual and institutional. In fact, a significant portion of the daily flow of trading volume in Canadian markets comes from U.S.-based investors.*
- *Canada is also home to a highly diversified economy with notable strengths in manufacturing, financial services, energy, and technology. Canada was named by the Economist Intelligence Unit as the best country in the G-20 group for doing business.*
- *As such, global investors want exposure to innovative companies that operate in one of the world’s largest economies.*
- *As of December 31, 2020, TSX and TSXV were home to 3,289 public companies. The total market capitalization of all companies listed on the two exchanges stood at \$3.477 trillion.*
- *A total of 228 international companies are listed on a Canadian exchange, of which 20 were added in 2020. U.S.-based companies dominate global listings and account for 50% of all international listings, followed by the United Kingdom and Europe at 13, followed by Israel at 5%.*
- *The average market capitalization of a TSX-listed company was \$2.072 billion, while the average value of a TSXV-listed company was \$47 million.”*

The CSE provides the following background information:

“CSE Financings 2023 YTD (to October 31, 2023)

- *758 financings completed for \$1,051M, compared to 663 financings for \$1,983M for same period in 2022, to 977 financings for \$7,354M for the same period in 2021.*

- Sectors: mining – 328 financings (43%) for \$375M (36%); cannabis/hemp – 89 financings (12%) for \$299M (28%); technology – 121 financings (16%) for \$133M (13%); life science – 88 financings for \$80M; diversified - 65 financings for \$61M; oil & gas – 11 financings for \$53M; cleantech – 30 financings for \$33M.
- Deal Types: non-FT – 460 financings (61%) for \$565M (54%); FT – 42 financings for \$103M; convertible debt – 64 financings for \$136M; debt – 29 financings for \$180M; IPO – 15 IPOs for \$15M; debt settlements – 139 transactions for \$46M.
- US: issuers with US HQ raised \$160M (15%); with major US assets raised \$336M (32%).
- US cannabis/hemp: issuers with US HQ raised \$139M (46% of cannabis/hemp); with major US assets \$225M (75%).

CSE Listings 2023 YTD (to October 31, 2023)

- 65 new listings and 8 fundamental change listings
- Pending Listings (as of 11/08/2023): 56 – 10 IPO, 38 non-offering, 4 RTO, 1 – Spinout, 2 TSX-V switch, 1 OTC.”

Appendix D

Canada’s Unique and Successful Small Cap Capital Market

Public Interest and Proportionality

Public Interest Issues

- The mission of the Canadian Securities Administrators (CSA) reads as follows: *“To give Canada a securities regulatory system that protects investors from unfair, improper or fraudulent practices and fosters fair, efficient and vibrant capital markets, by developing a national system of harmonized securities regulation, policy and practice.”*
- Managing this dual mission (a balance between vibrant capital markets and investor protection) is challenging. The CSA has effectively used the Venture (primarily TSXV and CSE)/non- Venture (primarily TSX) issuer distinction in its attempts to provide proportionality (e.g., National Instrument 51-102 stipulates later filing deadlines for Venture issuers). The regulation of Venture Issuers may benefit from further proportionality in the regulations for financial reporting, audits, and the regulation of auditors.
- Further proportionality will better serve all parties including the investor protection bodies whose limited resources should be focused on the large cap entities with broad-based shareholder groups.
- Investor protection bodies include the Exchanges as well as: Canadian Securities Administrators, provincial securities commissions, CPA Canada and provincial CPA bodies, Canadian Investment Regulatory Organization and Canadian Public Accountability Board (CPAB).
- Each regulation or rule imposes costs for public companies (and indirectly their investors). In addition to fees, levies and assessments imposed by the regulatory bodies, reporting issuers also incur compliance (external and internal) costs for legal, accounting, audit, and other services. For Venture issuers, the costs of compliance are a proportionately larger percentage of their revenue, earnings or market cap than is the case for non-Venture Issuers. Venture issuers absorb these compliance costs to maintain their public listing and their access to Canadian capital markets to finance their enterprises. A choice not to incur the compliance costs means de-listing, going private or other options all of which may undermine the ability to raise capital. What more can be done to reduce these costs?
- Every dollar directed to these general and administrative costs is a dollar not directed to value creation such as capital investments, research and development, or staff expansion/training. The high public interest value of such

investments is the argument presented by the federal government as to why it is imposing the 2% tax on stock buybacks which is effective January 1, 2024.

- The risk matrix for Venture issuers is well understood and well managed by investors, management, boards, and other stakeholders. There is no need for additional regulation. Instead opportunities to reduce regulation, while preserving market integrity, should be pursued. Market forces can work effectively and often more efficiently than regulation.
- Many investors who are Venture issuer shareholders have been vetted through rules for accredited investors; other investors are family offices or private equity firms who can dictate their own risk management options.
- Canadian regulators often refer to regulation in other countries as a rationale for new or changed regulation.
- The Canadian Venture market is unique, reflecting the natural resources, proven propensity for technology development and innovation, and successful Canadian entrepreneurs. Canadian regulators should not hesitate to pilot unique regulation to reflect the demography of the Canadian economy and capital markets. Given this uniqueness, proportionate approaches to audit oversight and other financial reporting regulations are critical to preserving the continued availability of Venture exchanges for capital raising and the public interest benefits thus generated.

Audits and the Regulation of Audit Firms

- A vibrant capital market is impacted by many factors. Venture issuers having access to a competitive marketplace of audit firms is important and a factor that regulators are asked to prioritize as they work to balance robust capital markets and investor protection.
- There appears to be an emerging problem of insufficient qualified accounting professionals interested in public audit careers. There is likely a connection between accounting and audit regulation and the attractiveness of public accounting careers to today's university graduates and newly qualified professional accountants.
- CPAB works to foster audit quality to contribute to investor confidence in capital markets. However ever-expanding regulation of audit firms (and particularly the recent move to publish inspection results) may further decrease the number of participating audit firms or cause them to abandon certain sub-markets.
- The cost of public company audits is rising rapidly due to higher staff costs for the audit firms but also expanding audit procedures, the use of specialists, and the audit firms building a risk premium into audit fees. Ever increasing CPAB regulation affects the behavior of Individual partners, causing them to become more risk averse to being engaged by junior issuers in high-risk enterprises or emerging industries. They wish to avoid the possibility of regulatory noncompliance or a publicly issued adverse investigation report. Audit partners defend their decision to refer a routine or uncontested matter to their valuations, tax, and/or professional standards group(s) as a risk management procedure to mitigate case file investigation by CPAB, not a function of their professional judgement or Generally Accepted Auditing Standards.
- The number and mix of audit firms providing audits to Venture issuers is shifting. BDO, Grant Thornton and RSM have significantly reduced the number of audits of reporting issuers, particularly junior issuers. Current information (September 2023) captured from SEDAR+ shows these three firms having a much-reduced portfolio of reporting issuer clients: Grant Thornton - 71, BDO - 55, RSM - 75. This is a substantial reduction as each of these firms was among the CPAB registrants with over one hundred reporting issuer clients just a few years ago.

- The reduction by the three firms was deliberate, and it appears in part, to position themselves under the threshold (auditing one hundred or more reporting issuers) which triggers annual CPAB inspections and the requirement to implement CPAB's Quality Management System (QMS).
- The analysis also shows that between January 2022 and September 2023 there has been a reduction of 221 audits performed by the dozen or so annually inspected CPAB registrants. So far most of those audit clients have moved to smaller firms, which have been capacity constrained due to retention issues since the pandemics.
- If the trend continues accessibility of audit firms may evolve to be a significant factor in determining access to Canada's public capital markets. CPAB inspections result in only a few financial statement restatements each year. Financial statements and audits play a significant role in the risk management matrix for the large cap segment but not to the same extent for the small cap segment, for which investors focus on other factors such as the record of the management team, the product concept, or other attributes.
- CPAB is encouraged to consider the impact of its current and proposed regulations and policies on the competitive market for audit firms. The reduced availability of audit firms willing to be engaged by small cap reporting issuers and the rapidly rising cost of public company audit services, has a disproportionate impact on the Venture issuers. The costs are significant and detract from initial listings on the Canadian junior markets.

Attractiveness of Accounting and Assurance Careers

- The regulatory burden facing audit firms may trigger unintended consequences which in the long term weakens audit quality. Audit firms find it increasingly difficult to attract new entrants into their public company audit divisions.
- Anecdotally, audit firm partners have been heard to say that they would not choose the auditor career path if they had known at the beginning, the uncertainty they would face from CPAB and other regulatory inspections.
- Access to high-quality finance professionals is the key to high quality finance teams, analysts, auditors, and audit committee members. This is a growing challenge. The ever-increasing regulatory burdens on audit firms and audit professionals within those firms is very likely a factor. Today's commerce and accounting graduates and newly qualified professional accountants have many attractive career paths available and when weighing future risk and reward may well be deterred by the regulatory risk in private practice at audit firms.
- Audit firms have significantly expanded the use of technology and artificial intelligence (AI) in the performance of routine audit procedures. This combined with expanded offshoring of such work has reduced their need for junior audit staff. An unintended consequence is the significant reduction in the pool of future audit managers and partners. On the other hand, opportunities to develop or utilize technology or AI might be presented in a positive way to attract staff.
- Audit staff benefit immensely if their work experience includes exposure to multiple clients in a wide range of industries and/or applying a wide range of corporate strategies. It is this range of experience that builds judgment and business acumen which are key to roles as future audit managers, partners, and business leaders. Working on several small cap reporting issuers and greater exposure to the business models and executives of those enterprises would provide such an opportunity for audit staff. Audit firms are encouraged to consider this factor as they assess the value of individual clients in their audit portfolios.
- All relevant parties (CQAQ, CPAB, CSA, CPAB registrants, CPA bodies, Universities) are encouraged to work together to champion public accounting careers whether audit, tax, business valuation, or professional standards.