

INVESTOR ADVISORY PANEL

November 24, 2023

Canadian Public Accountability Board
150 York St. Suite 900
Toronto, ON
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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