OVERVIEW

• Background on Canadian standard setting and audit inspection regimes
• Impact of 2008-2009 credit crisis in Canada
• What we are doing in Canada
BACKGROUND ON CANADIAN STANDARD SETTING AND AUDIT INSPECTION REGIMES

• ISAs have been adopted as Canadian audit standards (“CASs”)
• Many Canadian companies are SEC registrants – most large public companies – therefore also extensive use of PCAOB audit standards
• IFRS has been adopted without change for public companies
• Public companies registered with the SEC are permitted by Canadian securities regulators to file in Canada using US GAAP
• Accounting standards for private enterprises, developed in Canada, not the IASB’s SME standards
• Accounting standards for public sector developed in Canada
BACKGROUND ON CANADIAN STANDARD SETTING AND AUDIT INSPECTION REGIMES (continued)

• Independence standards are based on the IFAC code with an overlay of the SEC rules for public companies

• Independence standards are responsibility of the provincial accounting bodies

• The audit inspection regime for public companies is under the Canadian Public Accountability Board (“CPAB”), which was established by contract between CPAB and the audit firms

• Canadian public companies are required by securities law to use an auditor registered with CPAB
Audit and Accounting Standards Boards

• Auditing standards are set by the (volunteer) Canadian Auditing and Assurance Standards Board (“AASB”) overseen by the Auditing and Standards Oversight Council (“AASOC”)
• Private sector accounting standards are set by an independent board – the Accounting Standards Board (“ASB”) which is volunteer except for the Chair
• Public sector accounting standards are similarly set by the Public Sector Accounting Board (“PSAB”)
• Both accounting boards overseen by the Accounting Standards Oversight Council (“ACSOC”)
• All the boards and councils operate autonomously, but the Canadian Institute of Chartered Accountants (“CICA”) finances their operations
Implications for Introducing Significant Change to Audit Reporting and Role and Responsibility of Auditors

- In practice there are elements of both international and US standards
- Not a legislative process; relevant laws refer to the standards of the ACSB and AASB
- Each of the decisions to adopt international or US standards audit, accounting and independence was debated at length because our capital markets are so closely tied to the US
- Demonstration of the effect of competing accounting, auditing and independence standards and the importance of producing timely, quality standards in response to significant developments
IMPACT OF 2008-2009 CREDIT CRISIS IN CANADA

• There was no serious credit crisis in Canada in 2008 and 2009
• CPAB is noting the same concerns about lack of auditor skepticism, and other audit quality issues, as reported by audit inspectors in other countries
• Global initiatives are being monitored carefully here and will impact standards and regulations in Canada
WHAT WE ARE DOING IN CANADA

CICA / Centre for Audit Quality (“CAQ”) Roundtable – December 2011

• Relevance of audit and expectation gaps

• Auditor assurance on
  – Management Discussion and Analysis
  – Key performance indicators
  – Risk factors
  – Earnings releases

• How the auditor should communicate to investors
CPAB Audit Quality Symposium – December 2011

• Brought together thought leaders and policy makers from around the world including key Canadian regulators and standard setters
• Keynote address by PCAOB Chairman Jim Doty
• Panel discussing international developments in auditing
• Panel discussing implication of these developments for Canada
• Electronic voting by participants on 14 key questions
• Dialogue with leading audit committee members
**Key Issues Emerging from CPAB Audit Quality Symposium**

- Role of the audit committee
- Culture of audit firms/professional skepticism/independence
- Auditor reporting/assurance outside the financial statements
- Interaction between auditors and regulators
- Reporting audit inspection findings to audit committees
- Relevance of financial reporting
CPAB/CICA Initiative – Enhancing the Audit Process: A Canadian Framework for Proceeding

• View is that Canada will be impacted by changes in other jurisdictions

• CPAB and CICA believe important to develop Canadian consensus on
  – The role of audit committees
  – Audit reporting model
  – Independence

• Areas to consider identified for each of the above from IAASB/EC/PCAOB proposals and December 2011 CPAB Symposium

• The perspectives developed should
  – Be useful input to Canadian standard setters and regulators
  – Assist Canadians currently engaged in these global processes
Next Steps – The Role of Audit Committees

• CICA to establish working group of key stakeholders, audit committee chairs, AASB, auditors, institutional investors, banking and securities regulators and financial statement preparers

• Develop practical guidance for audit committees on better discharging their responsibilities for overseeing work of external auditors

• Develop draft discussion paper for comment in Fall of 2012 with final paper developed in early 2013
Next Steps – Audit Reporting Model

- CICA to establish working group of key stakeholders
- Working with the AASB, develop a discussion paper
- Any new standards developed by the AASB would be subject to due process and oversight from AASOC
- Reconciling any such standards with the current AASB premise of adopting IAASB standards would be important
- Draft discussion paper to be issued for comment Spring 2012 with final paper Fall 2012
Next Steps – Independence

• CICA to establish working group of key stakeholders to develop a discussion paper

• Working group will engage with accounting regulatory bodies responsible for setting rules of professional conduct for auditors

• Draft discussion paper to be issued Spring 2012 with final paper developed Fall 2012
Next Steps – Audit Process Steering Group To Be Established by CPAB in Consultation with AASOC

- To provide effective coordination and focus on the process
- Representative of regulators, investors, AASOC and other stakeholders
- Focus of the steering group will be to coordinate for the working groups the establishment of
  - Terms of reference
  - Work program
  - Output
Other Issues Identified but not Part of this Process

• Relevance of corporate reporting model
• Living wills for audit firms
• Audit concentration – however, as background, a survey is planned to understand whether the market in Canada perceives audit concentration to be an issue that needs to be addressed