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# ***OVERVIEW***

- Background on Canadian standard setting and audit inspection regimes
- Impact of 2008-2009 credit crisis in Canada
- What we are doing in Canada

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# ***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

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# ***BACKGROUND ON CANADIAN STANDARD SETTING AND AUDIT INSPECTION REGIMES***

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- 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

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## ***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

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## ***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

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# ***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

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# ***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

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## ***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

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## ***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

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## ***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

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## ***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

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## ***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

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## ***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

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## ***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

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## ***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