



March 15, 2013

Audit Committee Working Group  
Enhancing Audit Quality Steering Group  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, ON. M5V 3H2

Dear Sirs:

**Re: Discussion Paper – *Enhancing Audit Quality: The Role of the Audit Committee in External Auditor Oversight***

Thank you for the opportunity to comment on the above Discussion Paper prepared by the Audit Committee Working Group. We have reviewed the Discussion Paper and have provided our comments below.

Overall, MNP supports the efforts of the audit committee working group (ACWG) in improving the communication between the audit committee and external auditor and its considerations of ways in which audit committees can assist in promoting audit quality. We believe that many audit committees are performing regular reviews of their external auditors, although we believe there are significant variations in the process undertaken by each audit committee in assessing and evaluating the external auditors. To assist in improving the process of both annual reviews and periodic comprehensive reviews, providing audit committees with guidance for best practices is essential in order to discharge their responsibilities. That being said, we do not believe it is necessary for the comprehensive review to form part of current securities legislation as the guidance is being developed to address best practices and should allow for self-scaling in relation to the size and complexity of an entity's operations as identified in the paper.

With respect to the development of protocol for increasing information made available to audit committees regarding CPAB inspection findings, we do not believe such protocol in the Participation Agreement is necessary because many external auditors are verbally communicating changes in their audit approach as a result of CPAB inspection findings and other information. We believe that it is the external auditors' responsibility to communicate those findings to their clients.

While the discussion paper recognizes there are a large number of small public entities in Canada and that the recommendations in the discussion paper can be applied to all reporting issuers, we believe that it is essential for the ACWG to consider the cost and resource impact these recommendations will have on audit committees, specifically those exempt from the financial literacy requirement. The ACWG needs to consider both the challenges that will be encountered by many TSX Venture issuer companies and the costs involved in implementing the recommendations both in training audit committee members in effectively performing annual and comprehensive assessments and in understanding CPAB's mandate and their inspection processes. The ACWG also needs to consider the time commitment required of audit committee members, specifically the Chair in planning and performing these duties. It is important that audit committees receive appropriate tools and training in order to be able to effectively perform these assessments and meet the overall goal of the recommendations in the paper – enhancing audit quality.



We are pleased to offer our assistance to the Audit Committee Working Group in further exploring issues raised in our response or in finding alternative solutions to meet the needs of financial statement users.

MNP LLP (MNP) is one of Canada's largest chartered accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations and municipalities. In addition, MNP has a sizeable client base of publicly traded entities.

Yours truly,

**MNP LLP**

*Jody MacKenzie*

Jody MacKenzie, CA  
Vice President, Assurance Professional Standards

**The ACWG identified activities that, to contribute to the enhancement of audit quality, audit committees should perform every year:**

- **Monitor the effectiveness of the financial reporting environment.**
- **Oversee the annual work of the auditors.**
- **Review the audit plan.**
- **Consider the impact of business risks on the audit plan.**
- **Assess the reasonableness of the audit fee.**
- **Monitor the execution of the audit plan, with emphasis on the more complex and risk areas of the audit.**
- **Review and evaluate the audit findings.**
- **Conduct an annual assessment of the auditors' performance.**

***Do you agree that audit committees should perform these activities each year?***

*We agree that audit committees should perform these activities each year and believe that most audit committees do perform some, or all, of these activities. By reviewing the audit plan and considering the impact of business risks, the audit committee can assess whether or not the audit plan and the approach taken by the external auditor is likely to adequately address those risks that are significant to the business. However, additional guidance is necessary to ensure the audit committee is able to perform these activities appropriately. Some audit committees, especially those associated with small public entities, may need to enhance their knowledge and experience in this regard. For example, in order for audit committees to assess the “reasonableness” of the audit fee, additional guidance should define what would constitute a “reasonable” fee. Also, what process and/or procedures would be undertaken by the audit committee in “overseeing” the annual work of the auditors and in “monitoring” the execution of the audit plan? How much of a time commitment would be involved for audit committees and what level of understanding should they have with respect to audits?*

***Are there any other activities that audit committees should perform each year to contribute to the enhancement of audit quality?***

*An open dialogue between the external auditor and the audit committee members, specifically the Chair, throughout the year assists the external auditor in risk identification and enhances the quality of the audit. With respect to the annual assessments, it is important that clear objectives are set and the process is understood and agreed upon by all parties in order to have a successful assessment process.*

***Do you agree it would be helpful to develop a document for Canadian audit committees similar to the US publication in Appendix B to assist in the execution of annual assessments of the external auditors?***

*We agree that it would be helpful to develop a document for Canadian audit committees to assist in the execution of annual assessments of the external auditors. This document should provide guidance to audit committee members in conducting the annual assessments and in understanding where to focus their attention and what would be considered best practice. While we believe that a document would be helpful to audit committee members, a checklist type document should be avoided as the annual*

*assessment should provide a detailed assessment of the external auditor where meaningful feedback is provided in order for improvements to be made in the following years. Each audit committee needs to be able to tailor the annual assessment of the external auditors based on their situation.*

**The ACWG concurs with the consensus reached by the IWG that audit committees should conduct a mandatory comprehensive review of the external audit firm at least once every five years. Such comprehensive reviews will be considerably more rigorous than the annual assessments of the auditors' work, and:**

- **Audit committees should use the comprehensive reviews to make recommendations on retaining the present audit firm or engaging another firm.**
- **Audit committees should disclose the process they have undertaken and the basis for their recommendations.**

***Do you agree with the recommendation that comprehensive reviews of external audit firms, on which retention recommendations will be based, be conducted at least every five years?***

*We agree with the recommendation that mandatory comprehensive review is the preferred alternative of the three options presented, as we believe this is the option that will most effectively enhance audit quality. We believe that there are a number of factors that need to be considered in determining the timing of the comprehensive review. For example, management turnover, audit committee member turnover, partner rotation, etc. should all be considered as to whether or not the five year recommendation is appropriate. If there is significant turnover at the management and oversight level, it may be more appropriate to extend the comprehensive review past the five year period.*

*We also believe that a longer period between comprehensive reviews may be more appropriate, as it often takes a few years for a new auditor to fully understand the client and its business. The ACWG may want to consider a longer period between comprehensive reviews in order to account for this.*

***Do you believe the comprehensive review should be made a requirement under securities legislation?***

*We do not believe that the comprehensive review should be made a requirement under securities legislation. Current securities legislation states that audit committees are responsible for overseeing the work of the external auditor. We believe that additional guidance and points for best practice, rather than more comprehensive legislation, is best suited to assist audit committees in discharging their responsibility to oversee the work of the external auditor and in recommending to the board of directors the appointment/re-appointment of the external auditor. The guidance should allow for flexibility of implementation for each audit committee based on the size and complexity of the Company.*

***Do you agree that it would be helpful to develop a document to assist Canadian audit committees in executing the comprehensive reviews of external auditors? If so, please share any suggestions on what guidance audit committees would find helpful.***

*We believe that it would be helpful to develop a document to assist Canadian audit committees in executing the comprehensive reviews of external auditors as this will enable audit committees to focus on aspects that are important to quality audits and it will aid in performing consistent reviews between audit committees. The document should ensure “standardization” of the comprehensive review process and*

*establish an approach for consideration and application of “best practices” to the comprehensive review. Suggested guidance would include assessing independence, the quality of the audit team, etc.*

***What needs do you identify for resources, education, guidance and tools? What other implementation concerns do you have?***

*Given the large number of small public entities in Canada, with varying levels of financial literacy, we believe that training is essential for audit committees to ensure that they understand the process they need to go through in performing comprehensive reviews. Similar to the documents that need to be developed for assisting in annual assessments, audit committees need to be provided guidance on performing comprehensive reviews. These materials need to be tailored for the size of the Company and the Exchange(s) on which each entity is listed. Concerns over implementation include different levels and degree of reviews based on the composition of the audit committees.*

**To facilitate the performance of the annual assessment and the mandatory comprehensive review, the ACWG recommends that CPAB and the audit firms it regulates develop a protocol for increasing the information made available to audit committees.**

***Do you agree that components of the CPAB inspection findings should be communicated to audit committees to facilitate their comprehensive review?***

*We recognize CPAB’s contributions to ensuring high quality external results through firm inspections and recommendations. CPAB’s inspection results are based on performing a review of specific file sections of a select number of Firm files. While we believe that components of the CPAB inspection findings as they relate to the specific clients should be communicated to each individual entity’s audit committee in order to facilitate its comprehensive review, the form and content of the inspection report is not appropriate for dissemination outside the Firm. Current CPAB inspection reports can contain confidential client information derived from inspection of specific client engagement files. We believe that audit firms should be involved in determining how the results of the inspections are communicated to audit committees. We also believe that it should be the Firm who is responsible for communicating results of CPAB inspections with clients, not CPAB, and audit committees need to be educated on CPAB’s role and the process they undertake when performing inspections, along with the limitations of their inspections.*

***What elements of the inspection results do you believe should be communicated?***

*We believe that the overall results of the inspection should be communicated to audit committees, indicating whether or not the Firm has passed the inspection. It should be the Firm’s responsibility to communicate specific findings as they relate to individual client files that have undergone inspections during the year.*

***Do you believe inclusion of such protocol in the Participation Agreement is appropriate?***

*We do not believe that such protocol should be included in the Participation Agreement. We believe that most external auditors are verbally communicating changes in their audit approach as a result of CPAB inspection findings and other information. It is the responsibility of the external auditor to communicate inspection results to their clients.*

**The ACWG recommends that audit committees publicly report on their comprehensive reviews, describing the process undertaken and the conclusions reached, and that this disclosure be mandated by the Canadian Securities Administrators and other regulators.**

***Do you agree that audit committees should report on comprehensive reviews?***

*While there are some potential benefits to audit committees reporting on comprehensive reviews, we believe that a detailed assessment needs to be performed and additional information provided on what the report would look like and to whom it would be made available. For example, how detailed would the report be in describing the process the audit committee undertook in its comprehensive review and what specific information would be appropriate to be included in the report? Would the report structure be standardized or left to audit committees? If an audit committee determined, through its comprehensive review, that a new auditor should be appointed, how would that be communicated? Would the reasons for not re-appointing the previous auditor be made public?*

*We believe that details of the Audit Committee's comprehensive review and its results should be made available to the Board of Directors and to the external auditors. Outside of the entity, itself, publication of the comprehensive review would simply indicate that the Audit Committee had undertaken a comprehensive review and describe the Audit Committee's recommendations to appoint or re-appoint the auditor, or to appoint a new auditor.*

***Do you agree the disclosure requirement should be mandated through securities legislation?***

*We do not believe that Canadian Securities Administrators or other regulators should be involved in mandating disclosure requirements for comprehensive reviews. We believe that the audit committees should be responsible for reporting their findings to the Board of Directors where they will either recommend the reappointment of the existing external auditors or recommend the appointment of a new external auditor based on their comprehensive review findings.*

***Do you believe there should be additional audit committee commentary beyond the report on the comprehensive review?***

*We do not believe that it is necessary for additional audit committee commentary beyond the report on the comprehensive review.*