



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

Professional Accounting Conference
Carol Paradine, CPA, CA
CEO, Canadian Public Accountability Board
September 14, 2018
Speaking Notes

Part 1: Introduction to CPAB

- I'm going to spend my 15 minutes on three things.
- First, I'll take a few minutes on the role of CPAB.
- Second, I'll offer some perspective on what the future audit will look like.
- And third, I'll conclude with how auditors, regulators, and directors will need to be thoughtful AND agile to continue to protect the investing public and support a robust and trusted capital market.

- For those who don't know me, before joining CPAB as CEO six months ago, I was a long-time audit partner at a large international public accounting firm. I had been through five CPAB inspections and one PCAOB inspection; a lot of fear – did I miss something, did that document get into the file?!
- I've also been a corporate controller and CFO.
- And now as a regulator, I can say for certain I have the benefit of seeing the auditing profession from a variety of perspectives.

- CPAB's mandate is to identify current and emerging risks to the integrity of public company financial statements to protect the investing public.
- How do we do this?
- Mostly by assessing how auditors respond to risks, identifying root causes of poor audit quality, requiring firms to remediate quality issues, and engaging with company directors, other regulators and standard setters to develop sustainable solutions to better quality audits.
- And it's important to note, audit quality in Canada has improved over the past 15 years.

Part 2: The future audit

- So let's take a look at the road ahead.
- I can say without question, CPAB is squarely focused on the future of audit quality, and what the future audit will look like – in five, ten years from now.
- Enabling disruptors – new technologies, new businesses, and myriad other changes we can't yet predict – will reshape the audit as we know it.
- Correction. They already are.
- The demand for different skills from auditors and regulators alike is here.
- We need to train and hire differently for this.

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- Machine learning and artificial intelligence have started to replace certain basic procedures. That will transform the nature of audit work performed by humans.
- Emerging business developments are changing the profile of Canada's public markets – blockchain and cryptocurrency are just two newcomers challenging what used to be tried and true audit fundamentals. We'll need to develop new methodologies, new standards to meet these challenges.
- Let's take data analytics and automation, and crypto-assets as examples.
- Auditor use of data analytics and emerging technologies is growing. To date CPAB has seen a modest level of this activity in our inspections; this will change soon.
- We're watching the development and implementation of new tools and procedures, and how they can enable better quality over time. This includes understanding how auditors plan for assuring the completeness and integrity of client data used in data analytics audit routines. As regulators, how do we know that the artificial intelligence is truly intelligent?
- Crypto-assets – this is definitely a bold new frontier for most of us.
- There are over 50 crypto public companies in Canada; only one is being audited by one of the country's four largest public accounting firms.
- One of those firms has publicly stated that they cannot issue an audit opinion on a crypto company.
- How do you verify existence when traditional audit trail and counterparties are not present?
- Auditors are going to need to establish sound practices early on to ensure these audits are performed well, and that the investing public's interest continues to be protected.
- CPAB is working with audit firms, professional bodies and other regulators in Canada and internationally to drive quality in this uncharted audit territory. Guidance is urgently needed for auditors on how to respond to typical audit risks associated with these companies. We're assisting CPA Canada in this and expect to release audit guidance on this, this fall.
- But technological innovation is just one force shaping the future audit.
- The public trust is another.
- When international regulators recently asked CEOs of the world's largest public accounting firms about the number one thing keeping them awake at night, they uniformly replied: Trust. Trust in the auditor, trust in the audit, trust in the tools.
- Recent headlines in Europe have been critical of the profession.
- Stakeholders are calling for a range of solutions- anything from breaking up the largest firms, to audit only firms, to limiting the number of audits each firm can have, to taking the decision on auditor selection and/or audit fees out of the hands of management.
- But is there research that supports these actions, or is it a knee-jerk reaction?

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- From my perspective, accelerating audit quality, and thereby the public trust means ramping up professional skepticism, better team supervision, and centralized quality management systems and controls.
 - It means that CPAB will conduct more systemic reviews so that quality is embedded firm wide; that audits are consistently executed, everywhere, every time.
 - Some of these reviews will assess corporate culture. We believe that the culture set by audit firm leadership heavily impacts audit quality outputs – evaluating that impact will influence future quality improvements.
 - I spend a lot of time thinking about the factors that cause an audit failure, I think about it from the investing public's perspective and the impact of a significant loss as a result of either fraud or lack of prediction of going concern.
 - I have spoken with several prominent audit committee chairs recently. They all expressed the worry that increased going concern work would become a self-fulfilling prophecy.
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- On the fraud side, the two frauds that I found were in my first year of auditing. But can we rely on students with little training to find them? Is there evidence that training on professional skepticism will help better identify fraud, or are we barking up the wrong tree?
 - Audit quality in some foreign jurisdictions is nowhere near as strong as in Canada, but the standards related to group audit are old and sorely lacking.
 - We have been working hard to ensure that we get access to working papers for audits done in other countries when it relates to a Canadian public company, and are pushing standard setters to innovate and increase the pace of change.
 - There is more that could be done; CPAB would welcome additional research on the development and impact of these measures that impact audit quality.

Part 3: Final thoughts

- So, that is a very brief overview of CPAB, and how we see the audits of the future, and those who deliver and regulate them, evolving.
- The next generation audit will require an agile and progressive regulator to make sure quality is even better than it is today, and that investors can continue to count on financial reporting in Canada.
- We'll be finalizing our 2019-21 strategic plan in the coming weeks – it will map out how we'll get there. I look forward to sharing that with you later this fall.
- Thank you.