

CSA Consultation Paper 52-403*Auditor Oversight
Issues in Foreign Jurisdictions***April 25, 2017****I. Introduction**

The Canadian Securities Administrators (**CSA** or **we**) are publishing this consultation paper (the **Paper**) for a 60-day comment period to invite stakeholders to provide views on the desirability and feasibility of introducing requirements for oversight of work done by a foreign audit firm relating to the audit of a reporting issuer's financial statements.

This Paper describes a proposal from the Canadian Public Accountability Board (**CPAB**) to the CSA to amend National Instrument 52-108 *Auditor Oversight* (**NI 52-108**) to require certain audit firms involved in the audit of a reporting issuer's financial statements to register as a participating audit firm (**PAF**). This Paper also describes potential disclosure enhancements to inform stakeholders about any restrictions CPAB has faced in inspecting audit work performed.

The CSA will review and assess submissions put forward by stakeholders on the proposal and identify a course of action.

II. Background

NI 52-108 requires each audit firm that prepares an auditor's report for a reporting issuer to have a participation agreement with CPAB. A participation agreement, among other things, permits CPAB to inspect a PAF to assess compliance with applicable rules and professional standards in connection with the issuance of an auditor's report on the financial statements of a reporting issuer.

In recent years CPAB has expressed concern with the number of instances where it was denied access to inspect audit work performed in a foreign jurisdiction. CPAB is also concerned that stakeholders, including audit committees, may not be fully aware of such access restrictions for certain reporting issuer audits.

We acknowledge that CPAB currently faces challenges in accessing audit work performed in certain foreign jurisdictions, and that it continues to consider ways to respond to these challenges. Auditors are important gatekeepers in our market, and the ability of CPAB to inspect their work contributes to public confidence in the integrity of financial reporting.

III. Component Auditor registration

CPAB has requested that the CSA amend NI 52-108 to require certain audit firms involved in the audit of a reporting issuer's financial statements to register as a PAF, which would give CPAB a legal basis to inspect the audit work done by these audit firms in relation to reporting issuer audits.

A number of reporting issuers have operations in a foreign jurisdiction that differs from the jurisdiction where their head office resides. This may present challenges for auditors of such reporting issuers due to different languages, laws and business practices in the foreign jurisdiction. In responding to those challenges, some PAFs may ask an audit firm (a **Component Auditor**) in a foreign jurisdiction to perform work that forms part of the audit evidence supporting a PAF's auditor's report. A Component Auditor could be a member of the PAF's international network, or an unrelated foreign or domestic audit firm.

If a PAF decides to use the work of a Component Auditor, the PAF must comply with Canadian Auditing Standard 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (**CAS 600**),¹ which clarifies that the PAF is responsible for the direction, supervision and performance of the overall audit. Although CAS 600 requires the PAF to document the type of work performed by a Component Auditor, there is no requirement for the PAF to retain in its files a copy of the work performed by the Component Auditor.

In order to assess whether sufficient audit evidence has been obtained to support the PAF's audit opinion, CPAB has determined that it must have access to a substantial portion of the audit work performed. However, CPAB has encountered some instances where a substantial portion of the audit work has been performed by a Component Auditor in a foreign jurisdiction, and CPAB was not permitted access to inspect the work.

According to CPAB, in 2016 a foreign Component Auditor was involved in a significant portion of the audit² for approximately 597 reporting issuer audits in 95 foreign jurisdictions. These reporting issuers had a market capitalization of \$0.3 trillion as of September 30, 2016, which represented approximately 11% of the total market capitalization of \$2.7 trillion for all reporting issuers on TMX exchanges.³ However, it is not clear what portion of the \$0.3 trillion represents foreign operations.

CPAB has represented that a requirement in NI 52-108 for certain Component Auditors to register with CPAB would provide it a legal basis to access audit working papers in most foreign jurisdictions, although there would continue to be a small number of foreign jurisdictions where barriers to access would not be resolved. Further detail about the use of foreign Component Auditors for reporting issuer audits can be found in Appendix A, including the following information:

- Reporting issuer audits that involve foreign components in the United States, United Kingdom and Australia, comprise 37% of the total number of reporting issuers whose audits involve foreign Component Auditors, and 90% of the market capitalization.⁴

¹ CAS 600 is consistent with a corresponding International Standard on Auditing (ISA 600). The International Audit and Assurance Standards Board is currently examining whether clarifications or amendments are needed to ISA 600. However, any future changes are unlikely to address the foreign jurisdiction access issues discussed in this Paper.

² A Component Auditor would be involved in a significant portion of the audit if the assets or revenues it audited constitute 20% or more of the consolidated assets or revenues of the reporting issuer.

³ <https://www.tsx.com/resource/en/1398>

⁴ In the CPAB Report *Access to Foreign Jurisdictions*, November 2016, CPAB stated that these are well regulated jurisdictions where CPAB has existing or in-process MOUs facilitating working paper access. CPAB stated that given their long established regulatory and legal regimes, these are not considered high risk jurisdictions.

- If a Component Auditor registration requirement was in place CPAB has represented that it would continue to be restricted from inspecting work in China. CPAB has also represented that it is not clear whether working papers in Burkina Faso, Egypt, Ghana, Guatemala and Zambia would be accessible.

The introduction of a Component Auditor registration requirement may create some new challenges, as described below:

i. ***Challenges in finding Component Auditors to perform the work***

An existing Component Auditor may be unwilling to continue providing services to a PAF if it must be subject to inspection by CPAB. This would require the PAF to identify a new Component Auditor or travel to the foreign jurisdiction to perform the work itself. In some situations an existing PAF may be unwilling to continue providing audit services due to the difficulties relating to those two options; the PAF may not find a suitable Component Auditor or may not be willing or able to perform the work itself. As a result, the reporting issuer would have to engage a new auditor. In some situations a reporting issuer may even have difficulty finding a new auditor. Such changes in audit arrangements would cause disruption to reporting issuers.

ii. ***Potential for higher audit fees charged to reporting issuers***

A Component Auditor may charge additional fees in connection with being subject to additional oversight. If a PAF performs the audit work in a foreign jurisdiction that was previously audited by a Component Auditor, the PAF may charge additional fees to compensate for additional costs incurred. In each case the result would be higher audit fees charged to the reporting issuer.

Currently, the United States is the only jurisdiction we are aware of that requires certain Component Auditors to register with the audit oversight regulator. However, the basis for having such requirement may partially be due to unique features with respect to the United States reporting regime.

The United States audit oversight regulator, the Public Company Accounting Oversight Board (PCAOB), requires an audit firm that plays a ‘substantial role’ in an audit of a public company to register with it. An audit firm plays a substantial role in an audit if it performs:

- a) material services that a public accounting firm uses or relies on in issuing all or part of its auditor’s report, or
- b) the majority of the audit procedures with respect to a subsidiary or component of any issuer, the assets or revenues of which constitute 20% or more of the consolidated assets or revenues of such issuer necessary for the principal auditor to issue an auditor’s report.⁵

We note that the PCAOB’s registration requirement does not ensure access. For example, we note that the PCAOB currently is prevented from inspecting the U.S.-related audit work and practices of PCAOB-registered firms in certain European countries, China and Hong Kong (the latter to the extent their audit clients have operations in China).⁶ The PCAOB publishes a list of instances where it has been denied access to inspect audit work of registered firms.

⁵ PCAOB Rules, Rule 1001 paragraph (p)(ii).

⁶ <https://pcaobus.org/International/Inspections/Pages/IssuerClientsWithoutAccess.aspx>

Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

Question 3: If NI 52-108 is amended to require Component Auditor registration:

(a) Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.

(b) Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?

IV. Public disclosure about CPAB access restrictions

CSA staff are considering whether to amend a national instrument to require additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor.

If a reporting issuer has significant operations outside of Canada, its continuous disclosure documents should include information about the magnitude of its foreign operations along with the risks involved with operating in those foreign jurisdictions. Despite stakeholders having information on the impact of foreign operations from the reporting issuer's perspective, there is no requirement for public disclosure of how the foreign operations impact the audit of the reporting issuer's financial statements, or CPAB's ability to inspect the audit work performed in the foreign jurisdiction.

In 2015, CPAB published a list of the 10 largest foreign jurisdictions by market capitalization in which CPAB did not have access to working papers. The 2015 publication also identified six significant foreign jurisdictions where CPAB requested, but was denied access to inspect working papers.⁷ In 2016, CPAB reported that the number of foreign jurisdictions where CPAB has requested, but was denied access to inspect working papers had increased to eight.⁸ In its publications CPAB did not identify which reporting issuers were being inspected when access was denied.

In recent years, the PCAOB has emphasized the importance of stakeholders understanding how the use of foreign audit firms impacts an entity's audit and corresponding PCAOB oversight. For example, the PCAOB maintains a list on its website of each instance where it has been prevented from inspecting the work and practices of a PCAOB-registered firm. The list identifies the name of the issuer, name of the auditor, and location the auditor resides.⁹

⁷ CPAB Report *Access to Foreign Jurisdictions*, November 2015.

⁸ CPAB Report *Access to Foreign Jurisdictions*, November 2016.

⁹ <https://pcaobus.org/International/Inspections/Pages/IssuerClientsWithoutAccess.aspx>

Disclosure about restrictions CPAB faced when inspecting a specific reporting issuer's audit would make stakeholders aware of situations where they were deprived of the potential benefits of a CPAB inspection of the auditor.

Disclosure about specific instances of access restrictions CPAB faced would not result in fulsome information about all reporting issuer audits that involve Component Auditors in foreign jurisdictions. Disclosure about the use of a Component Auditor in a foreign jurisdiction would only occur if CPAB has had access restricted as part of an inspection, with disclosure of the restriction referring to the reporting issuer audit that CPAB inspected. If a different reporting issuer used the same Component Auditor, but CPAB did not request access for an inspection, then there would be no disclosure that the Component Auditor was involved in that reporting issuer's audit.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

Question 5: If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.

V. Comments and submissions

We invite participants to provide input on the issues outlined in this public consultation paper. You may provide written comments in hard copy or electronic form. The consultation period expires June 24, 2017.

Certain CSA regulators require publication of the written comments received during the comment period. We will publish all responses received on the websites of the Autorité des marchés financiers (www.lautorite.qc.ca), the Ontario Securities Commission (www.osc.gov.on.ca), and the Alberta Securities Commission (www.albertasecurities.com). Therefore, you should not include personal information directly in comments to be published. It is important that you state on whose behalf you are making the submission.

Please submit your comments in writing on or before June 24, 2017. If you are not sending your comments by email, please send a CD containing the submissions (in Microsoft Word format).

Address your submission to all of the CSA as follows:

British Columbia Securities Commission
 Alberta Securities Commission
 Financial and Consumer Affairs Authority of Saskatchewan
 Manitoba Securities Commission
 Ontario Securities Commission
 Autorité des marchés financiers
 Financial and Consumer Services Commission (New Brunswick)
 Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
 Nova Scotia Securities Commission
 Securities Commission of Newfoundland and Labrador

Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Deliver your comments **only** to the addresses below. Your comments will be distributed to the other participating CSA regulators.

The Secretary
Ontario Securities Commission
20 Queen Street West
19th Floor, Box 55
Toronto, Ontario M5H 3S8
Fax: 416-593-2318
comments@osc.gov.on.ca

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square-Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax : 514-864-6381
Consultation-en-cours@lautorite.qc.ca

Appendix A

Reporting Issuer Audits with Foreign Component Auditors that Play a Substantial Role *

Country of the Component	# of Reporting Issuers	Market Capitalization – \$ Billions
With Audit Regulators		
United Kingdom ^{1 2}	88	937.2
United States ^{1 2}	81	1,036.9
Australia ^{1 2}	51	373.6
China ³	24	23.0
Brazil	18	8.0
South Africa	13	2.4
Germany ¹	12	6.6
France ¹	11	25.5
Turkey	9	2.0
New Zealand	8	2.7
Spain ⁴	7	0.5
Belgium ⁵	4	5.4
Sweden ^{4 5}	3	4.4
Egypt ⁶	2	2.9
Austria ⁴	2	1.9
Portugal ⁴	2	-
Norway	1	36.2
Netherlands ¹	1	12.9
Slovakia ⁴	1	2.6
Without Audit Regulators		
Mexico ⁴	38	46.5
Argentina	22	30.3
Columbia	19	5.6
Peru	15	2.2
Chile	13	8.9
Philippines	7	3.4
Ghana ⁶	5	3.3
Burkina Faso ⁶	4	2.4
Tunisia ⁴	3	0.1
Zambia ⁶	1	7.5
Guatemala ⁶	1	5.2
Other⁷		
	131	16.6
Total	597	2,616.7

- ¹ CPAB has a sharing agreement in place with the audit regulator.
 - ² In the CPAB Report *Access to Foreign Jurisdictions*, November 2016, CPAB stated that these are well-regulated jurisdictions where CPAB has existing or in process MOUs facilitating working paper access. CPAB stated that given their long established regulatory and legal regimes, these are not considered high risk jurisdictions.
 - ³ CPAB has represented that access to working papers would continue to be restricted even if a Component Auditor registration requirement was in place.
 - ⁴ In the CPAB Report *Access to Foreign Jurisdictions*, November 2016, CPAB identified these as jurisdictions where CPAB has requested and been denied access to Component Auditor working papers. CPAB has represented that if a Component Auditor registration requirement was in in place, CPAB would have access to Component Auditor working papers in these jurisdictions.
 - ⁵ CPAB in process of negotiating a sharing agreement with the audit regulator.
 - ⁶ CPAB's understanding is that the PCAOB has not requested access to information in this jurisdiction, and as a result it is not clear whether a Component Auditor registration requirement would result in CPAB getting access.
 - ⁷ The composition of this category includes countries with, and without, audit regulators.
- * **Content for this appendix was provided by CPAB based on information available as at September 30, 2016.**



CANADIAN PUBLIC ACCOUNTABILITY BOARD
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June 22, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

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Subject: CSA Consultation Paper 52-403

The Canadian Public Accountability Board (CPAB) is pleased to have an opportunity to respond to the questions raised in the CSA Consultation Paper 52-403 – *Auditor Oversight Issues in Foreign Jurisdictions* (the “Paper”). We remind the readers of both the Paper and our responses below that, without access to Component Auditor Working Paper files in foreign jurisdictions, CPAB is restricted in fulfilling its mandate. By amending NI 52-108 and requiring Component Auditor registration, CPAB could access audit working papers in over 20 countries representing 98 percent of the market capitalization of the market capitalization of Canadian Reporting Issuers with substantial operations in foreign jurisdictions.

CPAB’s responses to the CSA’s questions are as follows. For the reader’s ease, the questions have been reproduced in italics.

Question 1: *Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB’s access challenges. Please explain the reasons for your views.*

CPAB believes it is the way to proceed – the scope of CPAB’s mandate in a number of foreign jurisdictions is limited by the current form of NI 52-108. Many foreign countries will only provide access to a foreign audit regulator where access is required by the laws of the Reporting Issuer’s home jurisdiction. In order to address the scope limitation, CPAB needs to have NI 52-108 amended so as to embed in financial regulations the legal authority for CPAB to access audit working papers in foreign jurisdictions. This can be accomplished by amending NI 52-108 to require that a component auditor be registered with CPAB, thereby giving CPAB the legal basis for access recognized by foreign jurisdictions. We do know that this is embedded in U.S. financial legislation and has given the PCAOB access to most foreign jurisdictions.

In addition CPAB asked its outside legal counsel to consider this matter. Their response was as follows:

“You’ve asked whether NI 52-108 provides CPAB with access to inspection of audit firms outside of Canada who play a substantial role in the preparation or furnishing of an audit report prepared by a participating audit firm. We do not believe this to be the case, given that the National Instrument only extends CPAB’s jurisdiction to “a public accounting firm that prepares an auditor’s report with respect to the financial statements of a reporting issuer”.

We have also reviewed the MOUs that CPAB has entered into with the Australian Securities and Investment Commission (“ASIC”), the U.K. Financial Reporting Council (“FRC”) and the U.S. Public Company Accounting Oversight Board (“PCAOB”). It should be noted that these MOUs are not binding agreements and, in any event, only extend to audit firms over which CPAB has jurisdiction in accordance with NI 52-108.

As a result, while CPAB may be able to exercise effective oversight, in certain circumstances, with the assistance of the foreign oversight body, **it has no legal authority to compel such cooperation**. In the absence of consent and voluntary assistance from the subject audit firm (as well as the reporting issuer), we do not think CPAB has any basis under our own laws (nor are we aware of any basis under those of the other jurisdictions) for compelling production of the documentation it would typically require to exercise its audit oversight role.” (Emphasis ours)

Question 2: *Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?*

CPAB would like to remind readers that our goal is to gain access to working papers held by the Component Auditor in the context of an inspection of the group auditor, not to conduct full oversight and inspections of the Component Auditor. This would alleviate part of the second challenge raised in the Paper, as a Component Auditor would no longer have a basis for charging additional fees for additional oversight.

Question 3: *If NI 52-108 is amended to require Component Auditor registration:*

(a) *Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB’s ‘substantial role’ threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.*

Yes, in our view the threshold should be both measurable and at a designated point in time (i.e. as at the prior year end date) to avoid any ambiguity on the requirement to register with CPAB. We also believe that alignment of the Canadian requirement with the PCAOB’s threshold will simplify the process for many, if not all, firms who will need to register with CPAB. The PCAOB’s rules are already well known and understood.

(b) *Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?*

CPAB does not believe there should be any exemptions when applying the threshold referred to in (a). Either the threshold is met, or it is not. The creation of exemptions at this early stage is premature and would not be based on practical knowledge that will be gained in the first few years of the operation of the threshold. (Firms may apply a specific exemption erroneously to other components to avoid registration with CPAB). It should be up to CPAB to determine the applicability of the threshold upon the application of the Component Auditor for registration. Exemptions would happen naturally on an ad hoc basis. If Firms are allowed to “self-exempt” under published exemptions, NI 52-108 may be ineffective in that regard.

For the above noted example, if the equity accounted investment was a significant component for either the balance sheet or the income statement, CPAB is unclear why either an investor in, or the Board of , a Reporting Issuer would find it acceptable that the audit work on the equity accounted investment would be excluded from any or all audit regulatory oversight.

Question 4: *Would additional transparency about situations where CPAB has been prevented from inspecting the work of a Participating Audit Firm (PAF) or Component Auditor that plays a ‘substantial role’ be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.*

Additional transparency as suggested in the Paper would create many negative outcomes, and, as the Paper itself states, would not result in fulsome information in any event.

One challenge is that while additional transparency on situations where CPAB was prevented from inspecting the work of a PAF or Component Auditor may be useful to investors and others, it would be in direct conflict with the confidentiality requirements embedded in CPAB’s rules.

[KH1]Another challenge is the potential punitive effect of such disclosure. In circumstances where a PAF denies access to the working papers for a reason other than a foreign law or regulation, it would be in violation of its participation agreement with CPAB and CPAB already has the power to terminate the Firm as a PAF, assuming the situation was not rectified.

In circumstances where access is denied due to foreign laws and regulation, CPAB believes disclosure would be unduly punitive to an individual Reporting Issuer, from a capital market perspective. CPAB selects its files for inspection on a risk-based sample basis and does not target all files in a specific industry or in a foreign jurisdiction. The “naming and shaming” of the one Reporting Issuer, and not its competitors operating in that same foreign jurisdiction, is not the appropriate role of CPAB, as it would put that Issuer at a competitive disadvantage in the capital markets.

Question 5: *If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.*

While CPAB does not support this disclosure, if enacted, we do not believe that it should be disclosed by the Reporting Issuer or CPAB.

As the regulation of Reporting Issuers rests with the various provincial securities commissions, CPAB would have no authority to enforce the National Instrument if the Reporting Issuer was non-compliant with the requirement. CPAB would also have no ability to ensure a Reporting Issuer provided appropriate prominence and context to the required disclosure as proposed in this Paper and, as a result, would have no means to ensure consistency in the transparency of disclosure amongst Reporting Issuers.

If any entity would be best fitted to provide this disclosure, it would be the relevant security commission.

* * *

We hope these comments are of some assistance and look forward to working with the CSA in refining the proposed amended instrument.

Yours truly,



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June 23, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety,
Prince Edward Island
Nova Scotia Securities Commission
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Re: CSA Consultation Paper 52-403 Auditor Oversight- Issues in Foreign Jurisdictions

Dear Sirs,

We are pleased to provide our comments on the above consultation paper.

Overall, our firm supports CPAB obtaining access to foreign files that they seek as part of their inspection process. We agree with the effort to enhance public confidence in the integrity of financial reporting.

Our comments follow the order of the questions posed in the CSA Consultation Paper for ease of reference.

Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

We are generally supportive of CPAB obtaining access to inspect work performed by foreign audit firms. We understand that there are several circumstances in which CPAB is unable to obtain access or experiences difficulty in obtaining the access it seeks. They must be individually considered.

First, there may be domestic laws, regulations, or professional standards in the country of the component auditor that strictly preclude the provision of the access that CPAB seeks. We do not expect that the measures proposed in the CSA Consultation Paper will address these circumstances. These circumstances will require other solutions, including agreements between audit regulators or coordination of review efforts between regulatory counterparts in different jurisdictions (i.e. IFIAR jurisdictions).

Second, while not containing a complete prohibition, domestic laws or regulations in the country of the component auditor may be used to deflect requests for access. Third, component auditors in foreign countries may simply be refusing access, based on their preference. We believe that in both of these cases, establishing practical mechanisms (such as the one we outline in our response to Question 2) to facilitate the sought-after access can be beneficial.

While we believe that requiring an agreement between CPAB and a component auditor could be an effective way to do so, as noted in our response to Question 2 below, we do not believe that replicating the existing CPAB Participation Agreement would be a practical approach. We believe that any agreement with a component auditor should reflect the differentiation between circumstances of inspection of a component auditor's working papers in support of a Canadian issuer audit from the inspection of a participating audit firm ("PAF"), which is the domain of the standard CPAB Participation Agreement ("PA") for auditors providing opinions on Canadian issuer financial statements.

Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

We agree with the two challenges in the discussion paper which are identified as i) Challenges in finding Component Auditors to perform the work, and ii) Potential for higher audit fees charged to reporting issuers, and believe there are likely some additional implications under both of those general headings that should be further explored.

For example, in respect to the challenge in finding a component auditor, there may be auditor licensing laws that would prohibit the PAF from doing the work themselves in a certain foreign jurisdiction. In the event that no component auditors in that jurisdiction want to register (due to the reasons identified in the paper), this could cause a company to be effectively not auditable, due to the fact there is nobody willing or able to do the work on the component.

If the decision is ultimately taken to require a component auditor to sign a PA, we believe consideration should be given to designing a new PA specifically for a component auditor as opposed to utilizing the existing PA. We are concerned with using the existing PA for a component auditor because, it would provide CPAB not only access to the component auditor's working papers in connection with the group audit, it would also provide CPAB with the right to inspect the component auditor's firm, including its system of quality control. It would also impose other requirements and conditions on the component auditor, that we believe go beyond what should be required of a component auditor.

A specifically designed Component Auditor Participation Agreement (CAPA) could be put in place that provides CPAB with desired access to a component auditor’s working paper files. A CAPA would define CPAB’s inspection domain as the component audit working papers supporting a group auditor’s opinion on the home country issuer. Further, the CAPA would need to consider and potentially provide relief from the obligation to permit CPAB access if it becomes apparent that either the domestic laws or the audit regulatory regime of the component auditor’s home country do not permit the group auditor to provide access.

For the suggested CAPA, we would foresee at least the following differences from the standard PA:

	Existing Participation Agreement	Suggested CAPA
Scope of agreement	Firm System of Quality Control and all Issuer audits	Audit files on component supporting group audit opinion
Signoff of each individual partner required?	Yes	No; consent could be required only from those signing off component auditor reporting to the group auditor
Firm subject to CPAB restrictions or requirements	Yes	To be determined; if ‘yes’, we would expect CPAB’s jurisdiction to extend no further than the component auditor’s work on that component
CPAB fees applicable to firm	Yes	No fees to be levied against the component auditor
Provision that CPAB will notify home regulator of component file inspection and/or results	N/A	Yes

Question 3: If NI 52-108 is amended to require Component Auditor registration:

- a. Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB’s ‘substantial role’ threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.**

We believe the requirement should be based on a simple and easily determined financial statement threshold (e.g., revenue or total assets).

- b. Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?**

Yes, we agree that it would be appropriate to consider exempting nonconsolidated entities due to the nature of control exhibited by the Reporting Issuer. In these entities, the Reporting Issuer does not have control and thus no ability to exert power over the entity to direct relevant activities. It would impose undue hardship on the Reporting Issuer to ensure that their equity method investee engage an auditor that is appropriately registered with CPAB.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

Where the access that CPAB seeks is not provided by the component auditor because doing so would violate laws or regulations in the component auditor's home country, we do not believe additional transparency is required. Today, CPAB, can publicly communicate in its own reporting those jurisdictions where access to component working papers is restricted.

In situations where CPAB's requested access is restricted because of an apparent lack of cooperation on the part of (i) the component auditor or (ii) the component/issuer, itself, we believe additional transparency to the issuer is desirable (as further described below in our continuing response to Question 4), while additional transparency to the public is not needed (as set out in our response to Question 5).

Where lack of cooperation on the part of the component auditor, the component or the issuer is the cause of the restrictions to CPAB's access, we believe that additional disclosure to the issuer's audit committee may be useful. In our view, such lack of cooperation reflects poorly on a group auditor, a component auditor, an issuer and/or its component and reflects an underlying lack of commitment to audit quality and acting in the public interest. In this case, we believe that the primary mechanism to address the challenge to audit quality already lies within the means already available to CPAB.

We believe that CPAB's communication protocol should be updated to expressly state that where CPAB has concerns that its inability to access component work papers reflects a lack of commitment to the public interest and audit quality, it will express these concerns and details of the situation to the issuer's group auditor. This would, in effect, be a commentary on the scope of the inspection. It should not be an inspection finding. The group auditor would then, in turn, be required to direct this commentary to the issuer's audit committee.

Question 5: If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.

Where lack of cooperation is the cause of the restriction to CPAB's access, we do not believe that broad, public disclosure of the issuer, the group auditor or the component auditor serves the public interest.

If the CSA holds the view that such facts must be publicly disclosed, we believe that CPAB should be providing such disclosure since the reporting issuers are required to select a PAF who are CPAB registered as part of the NI 52-108 requirements but do not select component auditors. As such, CPAB's access restriction information disclosure for the component auditors should not be mandated for reporting issuers.

We will be pleased to discuss any of our comments further if required. Any questions can be directed to Richard Olfert (rolfert@deloitte.ca) or Andrew Macartney (amacartney@deloitte.ca).

Yours truly,

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive font followed by "LLP" in a bold, sans-serif font.

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June 23, 2017

British Columbia Securities Commission
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Superintendent of Securities, Yukon
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Re CSA Consultation Paper 52-403

Thank you for the opportunity to provide our views on proposed changes to NI 52-108. This letter is submitted on behalf of Ernst & Young LLP in Canada. This letter should not be interpreted as representing the views of any other member of the EY global network of firms.

Before responding to the specific questions posed in the Consultation Paper, we would like to make general comments that will inform our specific responses. We will use the same defined terms as used in the Consultation Paper.

Status quo - We can provide only anecdotal comment as to the extent or severity of the issue of access to foreign Component Auditor working papers.

Our Firm is inspected annually by CPAB. In instances where CPAB has requested access to Component Auditor working papers, we communicate the request to the Component Auditor, and facilitate communications between CPAB and the Component Auditor. In most instances, the Component Auditor has agreed to provide access on a voluntary basis. We are aware of one instance where access was denied, on the basis of local legal restrictions.

International cooperation - Our view is that robust public company audit oversight at a national level, with international cooperation among national audit oversight authorities on questions such as access to firms' working papers within their respective jurisdictions, is the optimal solution. This promotes efficient use of audit oversight authority resources, and avoids inefficient or duplicative regulatory burden on audit firms. CPAB has taken a leading role by actively promoting international cooperation and coordination, through its participation in IFIAR (International Forum of Independent Audit Regulators), and negotiation of Memoranda of Understanding with audit oversight authorities in multiple jurisdictions.

Our firm, in addition to being a PAF with CPAB and a foreign public accounting firm registered with PCAOB, performs Component Auditor services for audits of issuers in multiple jurisdictions. The model proposed in the Consultation Paper -- if adopted internationally -- would require firms such as ours to register in multiple jurisdictions, with attendant regulatory burden and overlap. Accordingly, it is our view that a model of Component Auditor registration is not a desirable international model. If adopted in Canada, the model should be deployed no more widely than necessary to fill gaps left by the current state of international cooperation at the audit oversight authority level.

In keeping with this view, we believe that any changes to NI 52-108 should be no more extensive than necessary to achieve the desired objective.

- Consideration should be given as to whether it is necessary for Component Auditors in jurisdictions where CPAB has entered an MoU with the relevant audit oversight authority to be subject to a new requirement to enter a Participation Agreement with CPAB.
- For Component Auditors in non-MoU jurisdictions, consideration should be given to whether it is necessary for Component Auditors to enter a Participation Agreement, as opposed to a more limited form of agreement. (From a practical standpoint, a Component Auditor may be more likely to agree to enter an agreement if it is tailored to the objective of working paper access.)

The US Model - The Consultation Paper notes that the US is the only jurisdiction that presently requires certain Component Auditors to register with its audit oversight regulator (the PCAOB). We would caution against making an assumption that US experience is transferrable to Canada, given the relative size of the US and Canadian capital markets. A Component Auditor is more likely to already be registered with PCAOB (as the principal auditor for other clients that issue securities in the US) than with CPAB. A foreign audit firm is more likely to act as Component Auditor for multiple US issuers than Canadian issuers. The incremental regulatory burden may be higher under a Canadian requirement, while the benefit of registering in Canada may be perceived as lower.

CAS 600 - As noted in the Consultation Paper, use of the work of a Component Auditor is governed by CAS 600. In our view, the core concern addressed by the Consultation Paper is access to sufficient information to enable appropriate inspection of a PAF's compliance with CAS 600.

Again, we would emphasize the importance of coordinated international effort as an optimal solution. CASs align with the International Standards of Auditing (ISAs) promulgated by the International Auditing and Assurance Standards Board (IAASB). IAASB has embarked on a *Group Audits - Revision of ISA 600* project, which it has designated as one of its four priority standard setting projects.¹ Inspection reports from audit oversight authorities are an important input in that standard setting process. To the extent that concerns of audit oversight authorities over use of Component Firms in group audits can be addressed through appropriate revision of CAS 600/ISA 600 itself, this is in our view a more efficient and preferable model.

Conflicting Laws - As noted in the Consultation Paper, Component Auditors may be bound by local laws that prohibit providing access to a foreign authority. Any new requirements for Component Auditors should take this into account, for example by incorporating CPAB's Rule 105, which provides that a PAF may decline to comply with a CPAB requirement if compliance would create a conflict with a law to which the firm is subject.

¹ IAASB – Workplan for 2017-2018: Enhancing Audit Quality, February 2017

We also note that current and proposed provincial laws (e.g. Ontario's *Canada Public Accountability Board Act, 2006*, provincial/territorial *Capital Markets Act* consultation draft) contain provisions that can compel inspected PAFs to provide access to documents in their possession over which the issuer/client asserts legal privilege, coupled with express non-waiver provisions. Issuers may have a valid concern whether provincial non-waiver provisions are legally effective to preserve privilege in the Component Auditor's home jurisdiction. Consideration should be given to whether new requirements for Component Auditors should carve out access to documents over which the issuer/client asserts legal privilege.

Disclosure - As noted in the Consultation Paper, CPAB presently publishes information concerning jurisdictions where it has been denied access to Component Auditor working papers, and issuers are required to provide information in continuous disclosure documents as to the extent of their foreign operations and associated risks. We question whether additional disclosure requirements would be of added value to stakeholders.

In our view, inspection-specific disclosure relating to CPAB's ability or inability to access Component Auditor working papers would not be helpful to stakeholders, and would be potentially misleading. CPAB inspects only a sample of issuer audit files. Disclosure that CPAB was denied access in a particular inspection could lead a stakeholder to wrongly differentiate the inspected issuer from similarly situated issuers, simply because one issuer's audit was in the inspected sample and others were not.

To the extent that additional disclosure requirements are considered, disclosure of jurisdiction-specific information (e.g., that CPAB has been denied access in a particular jurisdiction) should be provided by CPAB. Issuer-specific information (e.g., the extent of the issuer's operations in a foreign jurisdiction) should be provided by the issuer.

In response to the specific questions set out in the Consultation Paper:

Question 1: See above. In our view, robust public company audit oversight at a national level, with international cooperation among national audit oversight authorities on questions such as document access, is the optimal solution. If a Component Auditor registration requirement is adopted, the requirement should be no more extensive than necessary to achieve the stated objective.

Question 2: The Consultation Paper (page 3) observes that if a Component Auditor was unwilling to continue providing services if it must be subject to inspection by CPAB, one option would be for the PAF to travel to the foreign jurisdiction to perform the work itself. It should be noted that this option may not be feasible, depending on local licensing requirements, or may even be illegal. A PAF performing the work itself may also run counter to CPAB's objectives to improve audit quality, to the extent that a Component Auditor may be better positioned to audit local operations because of its knowledge of, for example, local business conditions and tax laws.

Question 3(a) - An asset/revenue definition equivalent to the US "substantial role" would provide a workable threshold. However, please note our concerns, above, on the applicability of the US experience to Canada.

Question 3(b) - We agree that exemption should be considered for investments accounted for using the equity method. An investor with significant influence only may not be in a position to compel or influence an investee to engage a CPAB registered auditor.

Questions 4 and 5 - See above.



We appreciate the opportunity to comment on the issues raised in the Consultation Paper. Please contact Massimo Marinelli (Managing Partner - Assurance) or Eric Spiekman (Professional Practice Director) if you wish to discuss these or any other matters.

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June 21, 2017

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Montréal (Québec) H4Z 1G3
Via: Consultation-en-cours@lautorite.qc.ca

To: British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince
Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador

**Re: CSA Consultation Paper 52-403 – Auditor Oversight, Issues in Foreign
Jurisdictions**

Grant Thornton LLP (hereinafter “we”) would like to thank you for the opportunity to provide comments on the Canadian Securities Administrators (“CSA”) Consultation Paper 52-403 *Auditor Oversight, Issues in Foreign Jurisdictions*.

Overall, we have concerns that amendments to National Instrument 52-108 *Auditor Oversight* (“NI 52-108”) at this time would be premature given the upcoming changes to International Auditing Standard 600, *Special Considerations-Audits of Group Financial Statements* (“ISA 600”) and International Standards on Quality Control, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (“ISQC-1”). These concerns, as well as our comments should the CSA adopt the proposed amendments, are described in our responses to the questions as outlined below.

Question 1 – Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB’s access challenges. Please explain the reasons for your views.

In our view, the proposed amendments to NI 52-108 would be premature, and potentially unnecessary, given that proposed changes to ISA 600 are expected to be approved by March 2019, in addition to upcoming changes to ISQC-1. We believe the proposed changes to these standards should be understood first before implementing any changes to these regulations.

While we do not dispute that the Canadian Public Accountability Board (“CPAB”) has encountered access challenges in certain jurisdictions, it has been our experience that CPAB has been satisfied by the extent of documentation in our files as principal auditor. Our experience has not demonstrated a need for urgent action in this regard.

Question 2 – Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

We concur with the two challenges identified in the Consultation Paper, namely difficulties in finding Component Auditors to perform the work and possibility of increased audit fees. We would add that these challenges are exacerbated by the fact that Canada is a relatively small market on the global scale. Foreign firms, even when part of a network of member firms, may not necessarily be willing to open up their entire firm to quality control inspection by CPAB for a Canadian component audit, whereas they might be willing to do so for the larger US market. These component auditors often already have their own regulators and internal quality control inspection by their own firms and the member firm network. On this basis, we believe the risk of increased costs to Reporting Issuers would be amplified for Canadian registrants.

Question 3: If NI 52-108 is amended to require Component Auditor registration:

- (a) Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.**

In the absence of defined quantitative threshold, auditors will apply their judgement. On application, the judgemental thresholds applied may significantly differ from auditor to auditor. As noted above, we believe any amendment of NI 52-108 would be premature at this time. If NI 52-108 is amended, however, we believe quantitative thresholds would be best suited to determine whether a Component Auditor must register. This will eliminate any potential differences of opinion between CPAB and the auditor. However, in our view, these thresholds do not have to be identical to those of the PCAOB. Instead, the CSA could consider whether a significantly higher threshold could partially mitigate the challenges to which we have referred in Question 2 by requiring Component Auditors of only truly significant components subject to registration.

- (b) Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?**

Yes, we believe there should be exemptions when this threshold may be more difficult to apply or where the component has a less pervasive impact to the overall results of a reporting issuer (e.g. equity-accounted investments).

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

Conceptually, audit committees may find this information useful in fulfilling their oversight role of external auditors on behalf of investors and other stakeholders. However, it is our view that any form of public disclosure by CPAB that gives specific

information about Reporting Issuers to investors would break the confidentiality of Reporting Issuers and firms subject to CPAB inspection and question whether an amendment to the confidentiality provisions of the *Canadian Public Accountability Board Act* would be necessary to allow this to happen.

We are also cognizant of “notification fatigue” and believe users may not find these disclosures valuable unless the user was specifically looking for such information. Furthermore, public disclosure could become punitive to Reporting Issuers, and in particular to smaller entities with foreign operations, as it may be used solely by those seeking an avenue to pursue litigation.

Question 5: If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.

We envision that the audit firm would disclose any such findings to the audit committee of the Reporting Issuer, possibly through an amendment to the CPAB Protocol. There would not be public disclosure by either CPAB or Reporting Issuers. The audit committee is tasked with oversight on behalf of investors and as such, we do not feel that the benefits of any further disclosure outweigh the risks outlined in our response to Question 4 above.

If you wish to discuss our comments or concerns, please contact Kevin Ladner, FCPA, CA, CBV at Kevin.Ladner@ca.gt.com or +1 416 360 4983.

Yours sincerely,



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Executive Partner and CEO
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June 28, 2017

British Columbia Securities Commission
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Ontario Securities Commission
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Financial and Consumer Services Commission (New Brunswick)
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward
Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador

**CSA Consultation Paper 52-403
Auditor Oversight Issues in Foreign Jurisdictions**

We are pleased to respond to the Consultation Paper.

We agree that access to working papers of a component auditor in other jurisdictions is an important aspect of CPAB's mandate. When requested, we have worked with CPAB to try and ensure that they had access to the working papers of component auditors.

Our comments are as follows:

- We generally support the concept of Component Auditor registration requirements, subject to:
 - A reasonable threshold such that the requirement does not apply to foreign firms that are only performing a limited amount of audit work on 1 or a small number of audits of Canadian reporting issuer companies. We note that the Consultation Paper refers to the "substantial role" threshold used by PCAOB. We believe that this would be an effective and appropriate threshold in most circumstances;
 - The registration requirement should be formulated in a manner that acknowledges the possibility of legal or other restrictions in certain countries. It is possible that there will be circumstances in which a group auditor has sufficient and appropriate access to the working papers to conduct an audit in accordance with applicable auditing standards, but that legal or other restrictions do not provide for appropriate access to CPAB;



June 28, 2017

- We note that the Consultation Paper refers to the expectation that a registration requirement would facilitate the necessary access to the working papers applicable to the component auditor, but does not appear to address whether the contemplated registration would enable and/or require CPAB to address firm level controls and processes in those firms in foreign jurisdictions. While such reviews may be reasonable and appropriate in some circumstances, we expect that in many circumstances, the relevant quality control processes and procedures may be applicable at a file/engagement level rather than on a firm-wide basis.
- With respect to the transparency measures referred to in Question 4 and Question 5 of the Consultation Paper, we are concerned that public disclosures of restrictions without appropriate explanations may be misleading, or misunderstood, particularly if the restrictions resulted from circumstances that were largely beyond the control of the group auditor (such as legal impediments in a particular country).

Please contact us with questions or comments on these matters.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'John A. Gordon'.

John A. Gordon, FCPA, FCA
Canadian Managing Partner
Quality and Risk Management

June 23, 2017

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
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Nova Scotia Securities Commission
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Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Also, address comments ONLY to the following for distribution to other participating CSA members

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consultation-en-cours@lautorite.qc.ca

Dear Sirs/Mesdames:

Re: CSA Consultation Paper 52-403 Auditor Oversight Issues in Foreign Jurisdictions

Thank you for the opportunity to comment on the above consultation paper. We have reviewed the consultation paper and have provided our responses to the specific questions below.

Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

We do not believe that Component Auditor registration is the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms. We believe the responsibility for ensuring the standards under which component auditors are involved in an audit of Canadian Reporting Issuers who have operations in foreign jurisdictions rests with the group auditor.

CAS 600 Special Considerations — Audits of Group Financial Statements (including the Work of Component Auditors) ("CAS 600") deals with the special considerations that apply to group audits, in particular those which involve component auditors. The group engagement team/partner are responsible for:

- the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances;
- evaluating whether sufficient appropriate audit evidence has been obtained which includes an assessment of the audit work performed by the component auditors on the financial information of the components, on which to base the group audit opinion; and
- satisfying themselves that the component auditors have the appropriate competence and capabilities.

If CPAB satisfies themselves that the Group auditor has met the requirements under CAS, we believe it would be unnecessary to access work performed by the foreign audit firms.

Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

We agree that the introduction of a Component Auditor registration requirement would create challenges, not only with finding Component Auditors or the potential for higher audit fees charged to reporting issuers but also for the following reasons:

- the group audit could lose valuable knowledge as local firms have expertise in the foreign jurisdiction in areas such as tax, cultural, governmental, business practices, etc.;
- this may vastly reduce the number of component auditor firms that would be available to issuers, perhaps only leaving them with Big Four firms to choose from (if that) as many of the firms working as component auditors today will likely not agree to registration with CPAB because it just does not form a large enough body of work to undertake the additional administrative and other costs involved in becoming a registrant. This will reduce competition and create further hardship for Issuers (particularly Venture and CSE Issuers);

- possibility that the capital market in Canada will become less competitive;
- the number of Canadian reporting issuers that involve foreign components where a foreign Component Auditor was involved in a significant portion of the audit is a small piece of the market. As outlined in the paper, these entities only accounted for 11% of the total market capitalization for all reporting issuers on TMX exchanges. Of this 11%, it is not clear what portion represents foreign operations; however, it is noted that 90% of the market capitalization involved foreign components in the United States, United Kingdom and Australia which are not considered high risk jurisdictions.
- there will likely still be restrictions in place in certain higher-risk countries (China, Egypt, Ghana, etc.) which does not resolve CPABs concerns; and
- the Canadian capital market and regulatory environment is not the same as the United States and therefore it would not be appropriate to make a comparison.

Question 3: If NI 52-108 is amended to require Component Auditor registration:

- a) Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.**
- b) Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?**

We do not believe NI 52-108 should be amended to require Component Auditor registration.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

We refer to our response to question 1 above. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.

Further, CPAB selects a sample of files each year, which represents a small number of Canadian Reporting entities. Consistency and timeliness of disclosure need to be considered. To require disclosure in those specific circumstances for files selected would be unfair and lack consistency across all Canadian Reporting entities. As well, CPAB file reviews often take place several months after the entities have released their financial statements. Requiring disclosure in situations where CPAB has been prevented from inspecting the work as described above would not be timely.

Question 5: If we were to require this disclosure, who should provide the disclosure – CPAB or reporting issuers? Please explain your reasons for your views.

We believe that further analysis is required given the consistency and timeliness concerns identified above before we can provide an opinion on who should provide the disclosure.

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, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

A handwritten signature in black ink, appearing to read 'D. Danziger', is written over a light grey rectangular background.

David Danziger, CPA, CA
Senior Vice President, Assurance & National Leader, Public Companies



June 23, 2017

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Montréal QC H4Z 1G3

Dear Sirs/Mesdames

We are writing to comment on CSA Consultation Paper 52-403 (the paper) and proposals to amend NI 52-108 outlined therein regarding auditor oversight in foreign jurisdictions. We provide comments to questions posed in the paper on the following pages.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

Access to foreign work papers has been the topic of debate between the public accounting firms and CPAB since 2010 with the adoption of International Auditing Standards (ISAs) in Canada. In particular, CPAB has been critical of CAS 600, and the scope of component audit work papers that are required to be maintained by the Group auditor under the standard. We understand it is their view that they should have access to all work papers prepared by the component auditor and such working papers should be included in the Group auditor work papers, while the standard does not require this. We believe this is at the heart of CPAB's interest in pursuing a regulatory solution that goes beyond the Canadian profession's auditing standards. As an alternative to this regulatory proposal, CPAB could work with the Canadian Auditing and Assurance Standards Board (the AASB) to advocate for changes to the standards (ISA and Canadian Auditing Standards) that would enhance component auditor documentation that resides in the Group auditor work papers to a level that would be considered sufficient to address their concerns.

The paper does not describe the cooperative nature of the relationship that currently exists between the public accounting firms and CPAB to address the access issue. Over the past number of years, our firm and (we understand) other firms that are part of a global network, have arranged to provide access to foreign component workpapers when requested by CPAB during their inspection, where the component auditor is part of their group auditor's respective network. This access is generally provided, with the consent of the reporting issuer, even though there is no regulatory requirement to do so. Given that access is provided in many instances, unless there are legal impediments in the subject country, we would question the necessity of the proposed amendment to NI 52-108.

Given that CPAB is already gaining access to work papers in many cases where the reporting issuer is audited by a network firm, and given that network firms audit over 99% of the market capitalization of Canadian reporting issues, we believe that the potential scope of the proposal is quite narrow in terms of what is to be gained in terms of additional access. Information provided in the paper regarding the scope of the issue also leads one to question whether regulatory intervention is required.

Finally, the notion of 'registration' should be clarified. It is unclear in the paper whether registration would simply provide access to component audit working papers or whether the scope of the registration would be similar to that of a participating audit firm, which provides CPAB with the ability to inspect the firm, including its systems of internal control.



Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

The paper does provide commentary about challenges that may arise from the proposal, namely potential additional costs and the potential difficulty in finding a suitable component auditor. In our view, it is highly unlikely that individual foreign audit firms would register with CPAB if there are known domestic legal impediments that would not allow access to work papers. An agreement between a foreign firm and CPAB could not override domestic law. Consequently, we believe there would be continue to be access restrictions in these territories, notwithstanding the registration agreement. With respect to the remaining countries, as noted above, we believe access to work papers is already being provided by network firms.

Additionally, foreign audit firms may chose not to register with CPAB, due to additional costs. As the paper notes, this will cause disruption as Canadian firms will need to either engage another component auditor or elect to do the work itself, each of which has attendant costs, and in the latter case, may not be possible to due rules of practice in the foreign jurisdiction.

One observation with respect to this matter is the paper's failure to consider the audit regulatory regimes that exist in other countries. Rather than each domestic audit regulator requiring registration of foreign audit firms, our view is that that more should be done to encourage cooperation amongst independent domestic audit regulators. We recognize the role of the International Federation of Independent Audit Regulators (IFIAR), and support their efforts to move to a mutual reliance model. We believe this is a more cost effective way to address this issue, rather than through the proliferation of registrations with individual regulators. While not addressing the work paper access issue directly, we do believe that efforts to improve audit quality around the globe are relevant in terms of the potential risks of a component auditor not doing quality work.

Question 3: If NI 52-108 is amended to require Component Auditor registration:

(a) Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.

If the amendment were to proceed, we would not object to the use of thresholds similar to those used in the PCAOB definition of 'substantial role'. These definitions have been used in practice since the introduction of Sarbanes-Oxley, and practitioners with SEC registrants with foreign operations are familiar with the rule. Introducing a second set of definitions for use in Canada for foreign components does not appear to be necessary, and its application in Canada could be assessed if subsequent concerns arose.



(b) Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method?

As revenue of an equity investment is not reported as revenue in the consolidated financial statements, it is difficult to apply that particular threshold, however, we think the size test for assets and the 'material services' test should apply to equity investments, should the proposed amendments be made.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

Additional transparency with respect to this issue is likely to be useful information for stakeholders. Current practice does not provide investors with any insight into whether CPAB is able to gain access to foreign workpapers. We think that disclosure of countries where CPAB has been unable to gain access would be useful to investors and a list of such countries could be provided by CPAB, similar to the manner in which this is done by the PCAOB.

We are not supportive of reporting issuer specific comments being made directly by CPAB, as this is not consistent with their role as audit regulator. We believe it would be unfair (and potentially misleading) to report about access to working papers for one reporting issuer, and not another, even though both reporting issuers may have similar circumstances with respect to the manner in which their respective group audits are conducted, since this would depend on which reporting issuer audit files CPAB chooses to inspect in any given year. See our response to Question 5 for further comments with respect to disclosure.

Question 5: If we were to require this disclosure, who should provide the disclosure - CPAB or reporting issuers? Please explain the reasons for your views.

We understand that investors have an interest in audit quality. Further, having a significant portion of the company's investments or operations in another country may impact that objective, and investors should be informed. As part of corporate governance, directors should be diligent in their oversight of the auditor and ensure that the auditor has proper arrangements in place within the standards to ensure that quality audit work is done in foreign jurisdictions. We would favour disclosure by the Audit Committee as to what diligence has been done in this regard, and the results of those efforts, so that investors have a means to assess how foreign



operations may be impacting audit quality. It is our view that the audit committee, rather than management or CPAB, is best positioned to provide this information.

We wish to thank the Canadian Securities Administrators for the opportunity to provide our views regarding the proposals outlined in the paper. We would be happy to discuss our comments at your convenience. Any questions can be directed to Paul Fitzsimon (paul.fitzsimon@pwc.com or 416-869-2322) or to Kerry Gerber (kerry.d.gerber@pwc.com or 416-365-8834).

Sincerely yours,

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