

## Chapter 5

# Rules and Policies

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### 5.1.1 National Instrument 52-108 Auditor Oversight

#### AMENDMENTS TO NATIONAL INSTRUMENT 52-108 AUDITOR OVERSIGHT

1. *National Instrument 52-108 Auditor Oversight is amended by this Instrument.*
2. *The following is added after Part 3:*

#### PART 3.1 SIGNIFICANT COMPONENT AUDITOR'S WORKING PAPERS

##### Definitions

7.1 In this Part,

“component” has the same meaning ascribed to it in Canadian GAAS;

“component auditor” has the same meaning ascribed to it in Canadian GAAS;

“CPAB access agreement” means a written agreement between CPAB and a significant component auditor governing access by CPAB to the significant component auditor’s records related to audit work the significant component auditor has performed in relation to a component of a reporting issuer;

“CPAB access-limitation notice” means a written notice issued by CPAB that a significant component auditor has failed to provide CPAB with access to the significant component auditor’s records related to audit work the significant component auditor has performed in relation to a component of a reporting issuer;

“CPAB no-access notice” means a written notice issued by CPAB that a significant component auditor has failed to enter into a CPAB access agreement;

“significant component auditor” means, with respect to a financial period of a reporting issuer, a component auditor that performs audit work involving financial information related to a component of the reporting issuer if the reporting issuer has the power to direct the component on its own or jointly with another person or company and if any of the following apply:

- (a) the number of hours spent by the component auditor performing audit work in respect of the financial period is 20% or more of the total hours spent on the audit of the reporting issuer’s financial statements relating to that period;
- (b) the amount of fees paid to the component auditor for audit work in respect of the financial period is 20% or more of the total fees paid for the audit of the reporting issuer’s financial statements relating to that period;
- (c) both of the following apply:
  - (i) the assets or revenues of the component are 20% or more of the reporting issuer’s consolidated assets at the end of the financial period or the reporting issuer’s consolidated revenues for that period;
  - (ii) the number of hours spent by the component auditor performing audit work in respect of the financial period exceeds 50% of the total hours spent on audit work relating to the component in connection with the audit of the reporting issuer’s financial statements relating to that period.

##### Reporting Issuer to Permit Provision of Access

- 7.2 (1) If an audit of a reporting issuer’s financial statements for a financial period involves audit work performed by a significant component auditor for the financial period, the reporting issuer must give notice in writing to the significant component auditor that the reporting issuer permits the significant component auditor to provide

CPAB with access to the significant component auditor's records relating to that audit work if that access is requested by CPAB.

- (2) The notice referred to in subsection (1) must be given on or before the date of the auditor's report on the reporting issuer's financial statements referred to in subsection (1).

**Failure to Voluntarily Provide CPAB with Access to a Significant Component Auditor's Records**

**7.3** (1) If a participating audit firm receives a CPAB access-limitation notice, the participating audit firm must, not more than 5 business days after receipt of the notice, deliver a copy of the notice to all of the following:

- (a) the reporting issuer identified in the notice;
- (b) the audit committee of that reporting issuer;
- (c) the regulator or securities regulatory authority for that reporting issuer.

- (2) If a reporting issuer receives a copy of a CPAB access-limitation notice with respect to a significant component auditor, the reporting issuer must, not more than 5 business days following the receipt of the copy of the notice, give notice in writing to the significant component auditor that the reporting issuer permits the significant component auditor to enter into a CPAB access agreement.

**Failure of a Significant Component Auditor to Enter into a CPAB Access Agreement if Requested to Do So**

**7.4** (1) If a participating audit firm receives a CPAB no-access notice, the participating audit firm must, not more than 15 business days after receipt of the notice, deliver a copy of the notice to all of the following:

- (a) each reporting issuer audited by the participating audit firm if the public accounting firm identified in the notice was a significant component auditor for the reporting issuer's most recently completed financial period for which an auditor's report has been issued;
- (b) the audit committee of each reporting issuer referred to in paragraph (a);
- (c) the regulator or securities regulatory authority for each reporting issuer referred to in paragraph (a).

- (2) If a participating audit firm receives a CPAB no-access notice, the participating audit firm must not,

- (a) subject to subsection (3), use the public accounting firm referred to in the notice as a significant component auditor in respect of an audit of any reporting issuer's financial statements for a financial period ending more than 180 days after the date of the notice, or
- (b) in respect of an audit of a reporting issuer's financial statements for a period ending more than 180 days after the date of the notice, use any other public accounting firm as a significant component auditor in respect of a component of the reporting issuer, if audit work in the current or preceding year was done by the public accounting firm referred to in the notice, unless the other public accounting firm satisfies one or both of the following and delivers a notice stating that fact to the participating audit firm and CPAB at least 90 days before the participating audit firm issues its auditor's report in respect of the audit:
  - (i) the other public accounting firm gives an undertaking to CPAB in writing to provide CPAB with prompt access to its records relating to audit work performed on financial information related to the component of the reporting issuer;
  - (ii) the other public accounting firm has entered into a CPAB access agreement in respect of the reporting issuer.

- (3) Paragraph (2)(a) does not apply to a participating audit firm in respect of a financial period of a reporting issuer ending more than 180 days after the date of the notice if

- (a) CPAB has notified the participating audit firm that the significant component auditor has entered into a CPAB access agreement in respect of the reporting issuer before the participating audit firm issues its auditor's report in respect of the financial period, and
- (b) CPAB has not, before the participating audit firm issues its auditor's report in respect of the financial period, notified the participating audit firm that the significant component auditor has withdrawn from the CPAB access agreement referred to in paragraph (a).

**Application in Québec**

**7.5** In Québec, the requirements in section 7.2 and subsection 7.3(2) apply to a reporting issuer, provided that an agreement referred to in section 9 of the Chartered Professional Accountants Act (chapter C-48.1) is entered into..

- 3. Subsection 8(3) is amended by replacing “Except in Ontario” with “Except in Alberta and Ontario”.**
4. This Instrument comes into force on March 30, 2022.
5. In Saskatchewan, despite section 4. above, if this Instrument is filed with the Registrar of Regulations after March 30, 2022, this Instrument comes into force on the day on which it is filed with the Registrar of Regulations.

5.1.2 Companion Policy 52-108 Auditor Oversight

**CHANGES TO  
COMPANION POLICY 52-108CP AUDITOR OVERSIGHT**

1. ***Companion Policy 52-108 Auditor Oversight is changed by this Document.***
2. ***The following is added at the end of the Companion Policy:***

**Section 7.1 – Definition of Component and Component Auditor**

The terms “component” and “component auditor” have the same meaning as “component” and “component auditor” in Canadian GAAS. As a result, the terms are interpreted in a manner consistent with how the terms are used in Canadian Auditing Standard 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (CAS 600).

In CAS 600, the term “component” means an entity or business activity for which a group or component management prepares financial information that should be included in the group financial statements, and the term “component auditor” means an auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.

**Section 7.1 – Definition of CPAB Access Agreement**

The Instrument does not prescribe the content to be included in a CPAB access agreement. It is not intended to be equivalent to a “participation agreement”. The terms and conditions set out in a CPAB access agreement, including the manner and conditions for when access is to be provided, will be agreed to by CPAB and the significant component auditor.

**Section 7.1 - Definition of Significant Component Auditor**

*A component controlled or jointly controlled by a reporting issuer*

The definition of significant component auditor refers to a component auditor that performs audit work involving financial information related to a component of a reporting issuer if the reporting issuer has the power to direct on its own or jointly with another person or company. Financial information related to a component that a reporting issuer does not have power to direct, at least jointly, is excluded from the definition.

For example, under IFRS, a subsidiary or joint arrangement are captured by the reference noted above in the significant component auditor definition, whereas an investment that is accounted for using the equity method of accounting, or a variable interest entity that a reporting issuer does not have power to direct on its own or jointly with another person or company, is not captured.

*Determination of what constitutes an ‘audit hour’ or ‘audit fee’*

The term ‘hours’ in this Instrument refers to ‘audit hours’ and is intended to include any hours that are billed in respect of a financial period as ‘audit fees’ or ‘audit-related fees’ (other than hours pertaining to the review of interim financial report), as those terms are described in Forms 52-110F1 *Audit Committee Information Required in an AIF* and 52-110F2 *Disclosure by Venture Issuers* (52-110 Forms).

The term ‘fees’ in this Instrument is intended to include any fees that are billed in respect of a financial period as ‘audit fees’ or ‘audit-related fees’ (other than fees pertaining to the review of interim financial report), as those terms are described in the 52-110 Forms.

*Determination of percentage of audit hours spent by a component auditor on a financial statement audit*

Paragraph (a) in the definition of significant component auditor applies if the number of hours spent by the component auditor performing audit work in respect of the financial period is 20% or more of the total hours spent on the audit of the reporting issuer’s financial statements relating to that period.

For example, if a reporting issuer audit took 100 hours to complete, and the reporting issuer’s auditor performed 80 hours of audit work, and the component auditor performed 20 hours of audit work, paragraph (a) of the definition would apply since the hours spent by the component auditor would be 20% (20 hours / 100 hours) of the audit hours spent by the reporting issuer’s auditor.

*Determination of percentage of audit fees paid to a component auditor for the financial statement audit*

Paragraph (b) of the definition of significant component auditor applies if the amount of fees paid to the component auditor for audit work in respect of the financial period is 20% or more of the total fees paid for the audit of the reporting issuer's financial statements relating to that period.

For example, if a reporting issuer paid \$100,000 for the audit of its financial statements, and \$80,000 of the fee was paid to the reporting issuer's auditor for its audit work, while \$20,000 of the fee was paid to the component auditor for its audit work, paragraph (b) of the definition would apply since the percentage of fees paid to the component auditor would be 20% ( $\$20,000 / \$100,000$ ).

*Determination of number of audit hours a component auditor spent on a significant component*

Subparagraph (c)(i) of the definition of significant component auditor applies if a reporting issuer has a component with assets that represent 20% or more of the reporting issuer's consolidated assets at the end of the financial period, or revenues that represent 20% or more of the consolidated revenues for that financial period, and it has the power to direct the activities of the component on its own or jointly with another person or company. If subparagraph (c)(i) applies, subparagraph (c)(ii) of the definition would be considered.

Subparagraph (c)(ii) of the definition of significant component auditor applies if the number of hours spent by the component auditor performing audit work in respect of the financial period exceeds 50% of the total hours spent on audit work relating to the component that meets the application requirements in subparagraph (c)(i) of the definition.

For example, assume a reporting issuer has a subsidiary (Component A) that has revenues representing 30% of the consolidated revenues of the reporting issuer, and therefore satisfies subparagraph (c)(i) of the definition. If the audit of Component A took 10 hours to complete and the component auditor performed 6 hours of the audit work and the reporting issuer's auditor performed 4 hours of the audit work, the work performed by the component auditor would satisfy subparagraph (c)(ii) of the definition. The component auditor would have performed 60% ( $6 \text{ hours} / 10 \text{ hours}$ ) of the total hours to audit the component for the reporting issuer audit. The component auditor would therefore meet the definition of a significant component auditor.

In the example above, the 6 hours of work performed by the component auditor would represent the amount of time spent to perform audit work in connection with the audit of the reporting issuer's financial statements. If additional audit work was performed to support the completion of a separate audit engagement (e.g., the audit of the standalone financial statements of Component A), those audit hours would be excluded from the calculation in subparagraph (c)(ii).

**Section 7.2 – Reporting Issuer to Permit Provision of Access**

Section 7.2 requires a reporting issuer to, on or before the date of the auditor's report on the reporting issuer's financial statements for a financial period, give notice in writing to the significant component auditor that the reporting issuer permits the significant component auditor to provide CPAB with access to the significant component auditor's records relating to the audit work performed for those financial statements if that access is requested by CPAB. Effectively, this communication confirms to the significant component auditor that the reporting issuer has no objection with CPAB having access to any information about the reporting issuer that was retained as audit evidence to support the significant component auditor's audit work.

A reporting issuer can give notice to a significant component auditor to provide CPAB with access to inspect the significant component auditor's records by communicating directly with the significant component auditor (e.g., a letter to the significant component auditor), or indirectly through the reporting issuer's auditor (e.g., state in the engagement letter with the reporting issuer's auditor that it shall inform in writing that all significant component auditors involved in the audit that the reporting issuer is permitting them to provide CPAB with access to the records relating to the audit work they perform in connection with the reporting issuer's audit).

Regardless of whether the communication referred to in section 7.2 is received directly from the reporting issuer, or indirectly through the reporting issuer's auditor, it is important that the reporting issuer's auditor communicate to the significant component auditor the importance of the significant component auditor providing access to CPAB, and the implications for all involved if access is not voluntarily provided or a CPAB access agreement is not signed, since this could have a significant impact on future audits of the reporting issuer.

**Subsection 7.3(1) and Subsection 7.4(1) – CPAB Access-limitation Notice and CPAB No-access Notice**

Both subsection 7.3(1) and subsection 7.4(1) of the Instrument require a participating audit firm to deliver a copy of a notice to the regulator or securities regulatory authority. The securities regulatory authorities will consider the delivery requirement to be satisfied if a copy of the notice is sent to [auditor.notice@acvm-csa.ca](mailto:auditor.notice@acvm-csa.ca).

The Instrument does not prescribe the content of a CPAB access-limitation notice and CPAB no-access notice. If a copy of a CPAB access-limitation notice or CPAB no-access notice is delivered to the email address identified above, the communication should identify each regulator or securities regulatory authority that is to receive a copy of the notice if such information is not specified in the notice.

**Subsection 7.3(2) – Impact of a Significant Component Auditor Being Permitted to Enter into a CPAB Access Agreement**

If subsection 7.3(2) applies, the significant component auditor and CPAB would immediately begin the process of negotiating a CPAB access agreement. The negotiations should be completed in a reasonable period of time.

**Section 7.4 – Impact of Participating Audit Firm Receiving a CPAB No-access Notice**

If a participating audit firm receives a CPAB no-access notice and was planning to use the public accounting firm named in the notice as a significant component auditor for an upcoming reporting issuer audit, it may continue to do so provided that the reporting issuer's upcoming year end is not more than 180 days after the date of the notice.

If a reporting issuer's upcoming year end is more than 180 days after the date of the notice, the participating audit firm may not use the public accounting firm named in the notice as a significant component auditor for the reporting issuer's upcoming year end unless CPAB has notified the participating audit firm that the named firm has entered into a CPAB access agreement in respect of the reporting issuer before the reporting issuer's year end.

The participating audit firm also must not use any other public accounting firm as a significant component auditor for the audit of the reporting issuer's financial statements unless the other public accounting firm delivers a notice to the participating audit firm and CPAB at least 90 days before the issuance of an auditor's report in respect of that audit stating that it has given an undertaking to CPAB or entered into a CPAB access agreement and, in addition, one or both of the following apply:

- the other public accounting firm gives an undertaking to CPAB in writing to provide CPAB with prompt access to its records relating to audit work performed on financial information related to the component of the reporting issuer, or
- the other public accounting firm has entered into a CPAB access agreement in respect of the reporting issuer.

Participating audit firms should consider how they track the use of component auditors for their reporting issuer clients to meet the requirements of subsection 7.4(1) within the specified time period of 15 business days..

3. These changes become effective on March 30, 2022.