

National Instrument 52-108
Auditor Oversight

PART 1
DEFINITIONS AND APPLICATION

Definitions

1. In this Instrument

“CPAB” means the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes, incorporated as a corporation without share capital under the *Canada Corporations Act* by Letters Patent dated April 15, 2003;

“CPAB rules” means the rules and bylaws of CPAB, as amended from time to time;

“participating audit firm” means a public accounting firm that has entered into a participation agreement and that has not had its participant status terminated or, if its participant status was terminated, the status has been reinstated by CPAB;

“participation agreement” means a written agreement between CPAB and a public accounting firm in connection with CPAB's program of practice inspections and the establishment of practice requirements;

“professional standards” means the standards, as amended from time to time, listed in section 300 of CPAB rules that are applicable to participating audit firms;

“public accounting firm” means a person or company engaged in the business of providing the services of a public accountant.

PART 2
AUDITOR OVERSIGHT

Public Accounting Firms

- 2.** A public accounting firm that prepares an auditor's report with respect to the financial statements of a reporting issuer must be, as of the date of the auditor's report
- (a) a participating audit firm,
 - (b) in compliance with any remedial action referred to in subsection 5(1), and
 - (c) in compliance with the notice requirements of subsections 5(1) and (2).

Notice to Reporting Issuer if Public Accounting Firm Not in Compliance

3. (1) If a public accounting firm has been appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer and, at any time before signing the auditor's report, the public accounting firm is not in compliance with the requirements of paragraph 2(a), (b) or (c), the public accounting firm must deliver to the reporting issuer a notice in writing that it is not in compliance within 2 business days of first becoming aware of its non-compliance.
- (2) A public accounting firm that previously delivered a notice to a reporting issuer under subsection (1) must not notify the reporting issuer that it is in compliance with paragraph 2(a), (b) or (c) unless the public accounting firm has been informed in writing by CPAB that the circumstances that gave rise to the notice no longer apply.
- (3) A public accounting firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the reporting issuer.

Reporting Issuers

4. A reporting issuer that files its financial statements accompanied by an auditor's report must have the auditor's report prepared by a public accounting firm that, as of the date of the auditor's report,
 - (a) is a participating audit firm, and
 - (b) has not delivered to the reporting issuer a notice under subsection 3(1) or, if it has delivered to the reporting issuer a notice under subsection 3(1), the public accounting firm has notified the reporting issuer that the circumstances that gave rise to the notice no longer apply.

PART 3 NOTICE

Notice of Remedial Action to the Regulator or the Securities Regulatory Authority

5. (1) A participating audit firm appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer must deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if any of the following occurs:
 - (a) CPAB notifies the participating audit firm in writing that it requires the participating audit firm to take one or more of the following remedial actions:
 - (i) terminate an audit engagement;
 - (ii) engage an independent monitor to observe and report to CPAB on the participating audit firm's compliance with professional standards;

- (iii) engage an external reviewer or supervisor to oversee the work of the participating audit firm;
 - (iv) limit the type or number of new reporting issuer audit clients the participating audit firm may accept;
 - (b) CPAB notifies the participating audit firm in writing that it must disclose to the regulator or, in Quebec, the securities regulatory authority, any remedial action not referred to in paragraph (a);
 - (c) CPAB publicly discloses a remedial action with which the participating audit firm must comply.
- (2) The notice required under subsection (1) must be in writing and must include all of the following:
- (a) how the participating audit firm failed to comply with professional standards;
 - (b) the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards;
 - (c) each remedial action that CPAB imposed on the participating audit firm, as described by CPAB;
 - (d) the time period within which the participating audit firm must comply with each remedial action, as described by CPAB.
- (3) A participating audit firm must deliver the notice required under subsection (2) to the regulator or, in Quebec, the securities regulatory authority, no later than 2 business days after the date that CPAB notifies the participating audit firm that it must comply with any remedial action under paragraph (1)(a), (b) or (c).
- (4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Additional Notice Relating to Defects in the System of Quality Control

6. (1) If CPAB required a participating audit firm to comply with any remedial action relating to a defect in the participating audit firm's system of quality control, and CPAB notifies the participating audit firm in writing that it has failed to address the defect in its system of quality control to the satisfaction of CPAB within the time period required by CPAB, the participating audit firm must deliver a notice to all of

- the following:
- (a) for each reporting issuer for which the participating audit firm is appointed to prepare an auditor's report,
 - (i) the audit committee, or
 - (ii) if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed;
 - (b) the regulator or, in Quebec, the securities regulatory authority.
- (2) The notice required under subsection (1) must be in writing and must describe all of the following:
- (a) the defect in the participating audit firm's system of quality control identified by CPAB;
 - (b) the remedial action imposed by CPAB, including the date the remedial action was imposed and the time period within which CPAB required the participating audit firm to address the defect in its system of quality control;
 - (c) why the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.
- (3) A participating audit firm must deliver the notice required under subsection (1) no later than 10 business days after the participating audit firm received notice from CPAB in writing that the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.
- (4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Notice Before New Appointment

7. (1) A participating audit firm that is seeking an appointment to prepare an auditor's report with respect to the financial statements for a financial year of a reporting issuer must deliver a notice to the reporting issuer's audit committee or, if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed, if
- (a) the participating audit firm did not audit the financial statements of the reporting issuer for the immediately preceding financial year, and

- (b) CPAB informed the participating audit firm within the preceding 12-month period that the participating audit firm failed to address a defect in its system of quality control to the satisfaction of CPAB.
- (2) The notice required under subsection (1) must be in writing and include the information referred to in subsection 6(2).

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 after 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*, CQLR, c. C-48.1 is entered into.

PART 4 EXEMPTION

Exemption

- 8.** (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions and restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.
- (3) Except in Alberta and Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of NI 14-101 opposite the name of the local jurisdiction.