

## ***POLICY STATEMENT TO REGULATION 52-108 RESPECTING AUDITOR OVERSIGHT***

### **Introduction**

CPAB is an independent oversight body for public accounting firms that audit financial statements of reporting issuers. The purpose of CPAB is to promote high quality external audits of reporting issuers. It is responsible for developing and implementing an oversight program that includes regular inspections of participating audit firms. CPAB's primary means of assessing the quality of audits is through the inspection of selected high-risk sections of audit files and elements of a participating audit firm's quality control systems.

The purpose of *Regulation 52-108 respecting Auditor Oversight* (the "Regulation") is to contribute to public confidence in the integrity of financial reporting by reporting issuers by requiring:

- a reporting issuer to engage an auditor that has entered into a participation agreement with CPAB in connection with CPAB's program of practice inspections and the establishment of practice requirements,
- a participating audit firm to be in compliance with specified remedial actions imposed by CPAB,
- a participating audit firm to provide notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB imposes specified remedial actions, including the termination of an audit engagement or the engagement of an independent monitor to observe and report on compliance with professional standards, and
- a participating audit firm to provide notice to the audit committee or the person responsible for reviewing and approving financial statements, of its reporting issuer clients if the firm failed to address a defect in the firm's quality control systems that was previously identified by CPAB.

The purpose of this Policy Statement is to state the view of the securities regulatory authorities on various matters related to the Regulation.

### **Section 1 - Definition of Participating Audit Firm**

Many of the requirements in the Regulation are linked to the definition of participating audit firm in section 1. For example, section 5 of the Regulation imposes a notice requirement on a participating audit firm in a number of circumstances, including where CPAB requires the firm to terminate an audit engagement. CPAB may impose a remedial action on one or more individuals involved in a professional capacity with the participating audit firm. For purposes of the Regulation, the securities regulatory authorities consider any remedial action imposed by CPAB on an individual acting in a professional capacity with a participating audit firm to be a remedial action imposed on the firm.

### **Section 1 - Definition of Professional Standards**

The definition of professional standards refers to the standards listed in section 300 of CPAB rules, which are standards relating to auditing, ethics, independence and quality control.

### **Subsection 5(1) and Paragraph 6(1)(b) – Notice to Securities Regulatory Authority**

Both subsection 5(1) and paragraph 6(1)(b) of the Regulation require a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority. "Regulator" and "securities regulatory authority" are defined in *Regulation 14-101 respecting Definitions*. Each participating audit firm that is subject to either of these

provisions must deliver the notice to the regulator or, in Quebec, the securities regulatory authority, in each jurisdiction in which the firm is appointed by one or more reporting issuers to prepare an auditor's report with respect to their financial statements. The securities regulatory authorities will consider the notice requirement in each of these provisions of the Regulation to have been satisfied if the notice is sent to [*CSA email address to be added*].

#### **Subsection 5(1) – Remedial Action Imposed by CPAB**

Subsection 5(1) of the Regulation requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, of certain remedial actions imposed by CPAB. CPAB may refer to an item in subsection 5(1) of the Regulation as a recommendation, a requirement, a restriction or a sanction, or CPAB may use a different term. A participating audit firm must deliver the notice under section 5 of the Regulation if the remedial action is described in that section, without regard to how CPAB refers to it. For example, a notice is required by subparagraph 5(1)(a)(i) of the Regulation if CPAB requires a participating audit firm to terminate an audit engagement regardless of whether CPAB refers to it as a recommendation, requirement, restriction, sanction or uses a different term.

#### **Subparagraph 5(1)(a)(iii) – Engagement of an External Reviewer or Supervisor**

Subparagraph 5(1)(a)(iii) of the Regulation requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB requires a participating audit firm to engage an external reviewer or supervisor to oversee its work. One example of when a participating audit firm would notify the regulator is when CPAB requires the firm to engage an external engagement quality control reviewer to perform a technical review of one or more audits performed by the firm.

#### **Subparagraph 5(1)(a)(iv) – Limitation on a Participating Audit Firm from Accepting New Reporting Issuer Audit Clients**

Subparagraph 5(1)(a)(iv) of the Regulation requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if CPAB limits the type or number of new reporting issuer audit clients the firm accepts. The securities regulatory authorities consider this type of limitation to include restrictions on accepting audit engagements of reporting issuers in a particular industry. For example, a participating firm that is limited for any period of time from auditing the financial statements of mining companies is subject to subparagraph 5(1)(a)(iv) in the Regulation even if the firm may continue to audit reporting issuers in other industries.

The securities regulatory authorities also consider the term “new reporting issuer audit client” to refer to any reporting issuer the financial statements of which were not audited by the participating audit firm for the reporting issuer's most recently completed financial year. For example, if a participating firm was asked to audit the financial statements of a reporting issuer for the first time in respect of its 2013 fiscal year, that issuer would be a new reporting issuer audit client of the firm. Similarly, if a participating audit firm had audited the reporting issuer's 2011 financial statements but did not audit the 2012 financial statements, the securities regulatory authorities would also consider the issuer to be a new reporting issuer audit client of the firm in respect of the 2013 financial statement audit.

#### **Paragraph 5(1)(b) – Notice Required at Discretion of CPAB**

Paragraph 5(1)(b) of the Regulation requires a participating audit firm to deliver a notice to the regulator or, in Quebec, the securities regulatory authority, at the discretion of CPAB. One example of when CPAB may require a participating audit firm to notify the regulator is when the firm failed to comply with a remedial action within the period CPAB required.

### **Paragraph 5(2)(b) – Contents of Notice**

Subsection 5(2) of the Regulation sets out the content requirements for a notice delivered to the regulator or, in Quebec, the securities regulatory authority, by a participating audit firm. Paragraph 5(2)(b) requires a participating audit firm to describe each remedial action that CPAB imposed on the firm. This includes, but is not limited to, remedial actions referred to in subsection 5(1). For example, if CPAB requires a participating audit firm to engage an independent monitor under subparagraph 5(1)(b)(ii) of the Regulation and also imposes additional remedial actions on the firm other than those referred to in subsection 5(1), the notice must include a complete description of such other remedial actions.