

CSA Notice of Publication***Regulation to amend Regulation 52-108 respecting Auditor Oversight******Amendments to Policy Statement to Regulation 52-108 respecting Auditor Oversight***

January 13, 2022

Introduction

The Canadian Securities Administrators (the **CSA** or **we**) are publishing the following materials:

- *Regulation to amend Regulation 52-108 respecting Auditor Oversight* (the **Regulation Amendments**);
- *Amendments to Policy Statement to Regulation 52-108 respecting Auditor Oversight* (the **Policy Statement Amendments**);

(collectively, the **Amendments**).

The Regulation Amendments require actions by reporting issuers and participating audit firms that will assist the Canadian Public Accountability Board (**CPAB**) in accessing audit working papers of component auditors, particularly in certain foreign jurisdictions. The Policy Statement Amendments provide guidance on how we will interpret and apply the Regulation Amendments.

In connection with the Amendments, CPAB has also issued guidance on their website to provide additional insight to auditors on the processes they will employ to operationalize the Regulation Amendments.

The original proposals were published on October 3, 2019. We received 6 comment letters, which were all from audit firms. The list of commenters and a summary of comments is attached as Annex A.

The text of the Amendments is published with this Notice and is also available on the websites of CSA jurisdictions, including:

www.lautorite.qc.ca

www.albertasecurities.com

www.besc.bc.ca

www.nssc.novascotia.ca

www.fcnb.ca

www.osc.gov.on.ca

www.fcaa.gov.sk.ca

www.msc.gov.mb.ca

Provided all necessary ministerial approvals are obtained, the Regulation Amendments will come into force on March 30, 2022.

Substance and purpose

The Amendments aim to respond to challenges CPAB has had in getting access to audit work performed by an audit firm in a foreign jurisdiction that forms part of the audit evidence supporting an auditor's report issued by a participating audit firm (a **PAF**). An audit firm performing such audit work is commonly referred to as a 'component auditor'.

The Regulation Amendments require a reporting issuer to give notice in writing to a component auditor that meets the significance thresholds (a **significant component auditor**) that the reporting issuer permits the significant component auditor to provide CPAB with access to its audit work relating to the audit of the reporting issuer's financial statements if that access is requested by CPAB.

The Regulation Amendments also require a reporting issuer to give notice in writing to a significant component auditor that the reporting issuer permits the significant component auditor to enter into an agreement with CPAB governing access to the audit work the significant component auditor has performed in relation to a component of the reporting issuer (a **CPAB access agreement**) if the component auditor does not voluntarily provide access to CPAB upon request. If, despite a reporting issuer's permission and CPAB's request, the component auditor does not enter into a CPAB access agreement, a PAF is, after a prescribed period of time for transition, not permitted to use the audit firm as a significant component auditor.

Background

A reporting issuer may have operations in a foreign jurisdiction that differs from its head office jurisdiction. This may present challenges for the reporting issuer's auditor due to different languages, laws and business practices in a foreign jurisdiction. In responding to those challenges, a PAF may ask a component auditor to perform work that forms part of the audit evidence supporting the 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**), which specifies 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 and the PAF's review of such work, 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 needs 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 allowed access to such audit work.

Summary of the Amendments

The Amendments:

- introduce the definition of a significant component auditor, namely a component auditor that
 - performs audit work involving financial information related to a component, whose activities the reporting issuer has the power to direct on its own or jointly with another person, and
 - meets one of the quantitative metrics relating to hours of work, fees paid, or relative size of the component's assets or revenue;
- require a reporting issuer to give notice in writing to a significant component auditor that the reporting issuer permits the significant component auditor to provide CPAB with access to records relating to the component auditor's audit work performed for a reporting issuer audit;
- require a reporting issuer to give notice in writing to a significant component auditor involved in the audit of its financial statements that the reporting issuer permits the significant component auditor to enter into a CPAB access agreement if the reporting issuer receives a copy of a notice from its PAF stating that a significant component auditor has failed to provide CPAB access to the significant component auditor's records related to audit work performed. A CPAB access agreement is 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 it has performed in relation to a component of a reporting issuer. The terms and conditions set out in a CPAB access agreement, including the manner and conditions for when access is to be provided, must be agreed to by CPAB and the significant component auditor;
- require a PAF to no longer use a public accounting firm as a significant component auditor after a prescribed period of time, if the PAF receives notice that the public accounting firm has failed to enter into a CPAB access agreement after being requested to do so. A PAF may use another significant component auditor that undertakes in writing to provide CPAB access to its audit work or has entered into a CPAB Access Agreement in respect of the reporting issuer.

Summary of changes compared to the original proposals

The Amendments are substantially similar to the original proposals, except for the following:

- The quantitative metrics for the significant component auditor definition have been revised. The numerator in some calculations now refers to the total audit hours or fees pertaining to the audit of the financial statements instead of the total audit hours or fees pertaining to the PAF.
- The Regulation Amendments require a reporting issuer to permit the significant component auditor to provide CPAB access to their work, and if requested by CPAB, to enter into a CPAB access agreement. These changes are intended to prevent the reporting issuer from delaying or impeding CPAB's access to the audit work, and replace the previously proposed requirement for the reporting issuer to take reasonable steps to direct

the significant component auditor to provide access or enter into a CPAB access agreement.

Questions

Please refer your questions to any of the following:

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Annex A

SUMMARY OF COMMENTS AND CSA RESPONSES

This annex summarizes the comment letters and our responses to these comments.

This annex contains the following sections:

1. Introduction
2. List of Commenters
3. Responses to comments received on the original proposals published on October 3, 2019

1. Introduction

In this annex, we consolidated and summarized the comments and our responses by the general themes of the comments. We have included section references to the Revised Materials for convenience.

In connection with the Amendments, CPAB has issued guidance on their website to provide additional insight to auditors on the processes CPAB will employ to operationalize the Regulation Amendments (the **CPAB Guidance**). If a comment pertains to the manner in which CPAB plans to operationalize the Regulation Amendments, the response will direct the reader to refer to the CPAB Guidance.

2. List of Commenters

We received comment letters on the original proposals from the following:

- Deloitte LLP
- Ernst & Young LLP
- Grant Thornton LLP
- KPMG LLP
- MNP LLP
- PricewaterhouseCoopers LLP

3. Responses to Comments Received on the Revised Materials

Draft amendments to Regulation 52-108		
Issue	Comment	Response
General Comments		
General support of CPAB access of component auditor work for inspection purposes	Four commenters stated support for CPAB obtaining enhanced access to significant component auditor files that they seek as part of their inspection process.	We thank commenters for their noted support.
General concern with CPAB access of component auditor work for inspection purposes	<p>One commenter believes the responsibility for ensuring the standards under which component auditors are involved in an audit of reporting issuers rests with the group auditor [and not CPAB].</p> <p>The commenter believes the draft amendments would result in the following:</p> <ul style="list-style-type: none"> • challenges in finding significant component auditors, • potential for higher audit fees charged to reporting issuers, and • the possibility that the capital markets in Canada will become less competitive • 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. <p>The commenter also points out that:</p> <ul style="list-style-type: none"> • the number of Canadian reporting issuers captured is a small piece of the market, 	<p>The purpose of CPAB is to promote publicly and proactively, high quality external audits of reporting issuers. CPAB achieves this purpose, in part, by conducting inspections of participating audit firms to assess whether reporting issuer audits are being performed in compliance with professional standards.</p> <p>CPAB has determined that the inspection of component auditor information is necessary in some cases to assess compliance with professional standards. We have amended securities requirements to assist CPAB in obtaining access to inspect that information.</p>

	<ul style="list-style-type: none"> • there will likely be restrictions in place in certain higher-risk countries (e.g., China), which does not resolve CPAB’s concerns, • requiring a PAF to replace a significant component auditor would be unfair and lack consistency across all reporting issuers since it is driven by CPAB’s inspection process, which is based on a sample of files selected each year, and • CPAB file reviews often take place several months after the issuer have released their financial statements. Requiring the replacement of significant component auditors in situations where CPAB has been prevented from inspecting the work as described above will not be timely. 	<p>We recognize that challenges may remain on access to component auditor files that are needed for an inspection. However, the Amendments are intended to assist in responding to the significant challenges that CPAB has had in getting access to inspect audit work performed by an audit firm in a foreign jurisdiction.</p>
<p>International approach to audit oversight</p>	<p>One commenter stated their view that an 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 reporting issuers and audit firms. Any new model adopted in Canada should be deployed no more widely than necessary to fill the gaps left by the current state of international cooperation among at the audit oversight authority level. CPAB should continue to prioritize enhancement of international cooperation amongst national oversight regulators on areas such as access to work papers.</p> <p>One commenter asked for clarification on whether CPAB will work with their auditor oversight counterparts, where available, in the component auditor’s jurisdiction to conduct the inspection?</p>	<p>We agree that CPAB should continue to enhance their cooperation with other national oversight regulators, which may lead to fewer circumstances where a CPAB access agreement is needed to facilitate access.</p> <p>Please refer to CPAB Guidance for more information.</p>
<p>A revised CAS 600 – <i>Special Considerations – Audits of Group</i></p>	<p>One commenter noted that the IAASB is currently revising ISA 600, which will be adopted in Canada as revised CAS 600, so it may be prudent to delay finalization of the draft amendments until the revised CAS 600 is issued.</p>	<p>CAS 600 is not anticipated to address the access to working papers issue for an audit oversight regulator. As such, we</p>

<p><i>Financial Statements</i> should be considered before implementing securities legislation</p>	<p>One commenter noted that, if CPAB does not believe that ISA/CAS 600 provides sufficient information as to what is sufficient appropriate audit evidence to support the work performed by the component auditor, then this should be addressed through the standard setting process for ISA/CAS 600 Revised versus through a Regulation. If the aim is to address a practice issue, we would suggest that such an issue could be more appropriately managed through the continued development of application guidance.</p>	<p>do not agree that the Amendments should be delayed until CAS 600 is potentially revised.</p>
<p>Clarification of CPAB inspection scope for component auditors</p>	<p>One commenter noted that the draft amendments do not address whether CPAB’s review of the component auditor working papers will be focussed on establishing whether the group auditor complied with CAS 600 or if the review extends beyond the requirements of CAS 600 to an inspection of the component auditor’s file. If CPAB’s review scope exceeds that which would be required by the group auditor under CAS 600 and the group auditor is held accountable by CPAB beyond the requirements of CAS 600, group auditors may respond by also performing oversight beyond what would be required by CAS 600. This could lead to redundancies and higher costs for reporting issuers without commensurate benefits.</p> <p>The commenter notes their view that CPAB’s inspection should be a focus on reviewing component auditor documentation that is relevant to the significant risks of material misstatement of the group financial statements.</p>	<p>Please refer to CPAB Guidance for more information.</p>
<p>Specific Jurisdictional Restrictions</p>	<p>One commenter notes that Annex C indicates that “The CPAB access agreement would not necessarily result in CPAB having immediate access to inspect work in each of the noted countries if the agreement identifies specific jurisdictional restrictions that continue to prevent access”. The commenter interprets this to mean that if there are valid legal impediments in a local jurisdiction preventing the component auditor from providing CPAB with access, the component auditor can</p>	<p>Staff do not agree with the commenters view. Please refer to CPAB Guidance for more information.</p>

	<p>sign an access agreement with CPAB and would not be barred from acting as a component auditor while these impediments remained in place. <u>The commenter's view is that this is an important clarification that should be included in the Regulation</u> (emphasis added), and that it would be helpful to clarify what CPAB and/or the CSA consider to be valid legal impediments.</p> <p>One commenter asked for clarification of whether the requirement for an access agreement will only be imposed in circumstances where it has been determined by CPAB that there is no impediment under the laws of the component auditor's jurisdiction to allow for the inspection of records? Will CPAB take a flexible approach to disclosure in order to work within the laws of the local jurisdiction, such as through the inspection of records within the local jurisdiction as opposed to requiring disclosure in Canada?</p> <p>One commenter noted their view that, in some circumstances, component auditors may not be able to fully meet conditions of the Regulation; for example, due to potential conflicts with local laws and regulations. In such circumstances, the recourse under the proposals would be for the PAF to reperform the audit procedures if allowed under local laws and regulations. This may cause the PAF and reporting issuer to incur significant costs relating to travel and in some cases relating to reperforming procedures that may have already been done by the predecessor component auditor or by the component auditor retained for the purposes of performing the statutory audit, if needed. It may also have an impact on the quality of the audit due to the lack of experience with the local standards and regulations. If the PAF cannot perform the work due to local laws or regulations, then the proposals provide no recourse.</p>	<p>Please refer to CPAB Guidance for more information.</p> <p>If a component auditor is subject to specific jurisdictional restrictions that prevent access, then this should be addressed with CPAB when entering into a CPAB access agreement. Please refer to CPAB Guidance for more information.</p>
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<p>Treatment of 'privileged information'</p>	<p>One commenter asked for clarification of how CPAB will treat materials which are considered privileged by the reporting issuer or component auditor?</p>	<p>Please refer to CPAB Guidance for more information.</p>
<p>Request for further guidance on how CPAB would apply Amendments</p>	<p>One commenter asked for clarification of whether CPAB intends to use access agreement on a routine basis, or will they only be requested in circumstances where other alternatives have first been exhausted? If so, what will those other alternatives be?</p> <p>One commenter asked for clarification on what CPAB's expectations will be for the group auditor, taking into account that they will often have little or no ability to cause a component auditor to take a particular action. Does CPAB expect that group auditors will include a requirement in the engagement agreement with component auditors to allow for inspection of records by CPAB?</p>	<p>Please refer to CPAB Guidance for more information.</p> <p>Please refer to CPAB Guidance for more information.</p>
<p>CPAB representations on ability to access component audit working papers if requirements were in place</p>	<p>One commenter noted that Annex C states that CPAB represented that if the draft regulation were in place, component auditors in China, Mexico and Tunisia would be able to enter into a CPAB access agreement if they so choose. Since the content of the CPAB access agreement has not been shared with all the contemplated parties, the commenter notes that it is difficult to definitively determine whether that will be the case, as component auditors may have different interpretations of the relevant legislation in that region.</p>	<p>Please refer to CPAB Guidance for more information.</p>
<p>Staff Notice Questions</p>		
<p>Any limitation or concerns with inclusion of components where the reporting issuer has power to direct jointly with another person?</p>	<p>Two commenters stated that they do not anticipate any specific limitations or concerns</p> <p>One commenter noted that, in cases of joint control, there could be implementation challenges for reporting issuers where the other entity or person is not a reporting issuer and is not subject to any legal obligation to direct the significant component auditor to provide CPAB with access. The Policy Statement should address this situation and what</p>	<p>Although commenters noted that another party in the joint control arrangement may not support providing CPAB access to working papers, staff do not agree that this possibility is a reason to exclude components in the case of a joint control arrangement. Reporting issuers</p>

	<p>would constitute “reasonable steps” for reporting issuers in this circumstance.</p> <p>One commenter noted their view that, if an entity is jointly controlled by a reporting issuer and a non-reporting issuer, the non-reporting issuer will not be subject to the same restriction in its selection of component auditor. As such, the commenter believes this could cause delays and additional costs to the reporting issuer, in the event the non-reporting issuer does not allow a change in component auditor.</p>	<p>should ensure this issue is considered and addressed with respect to its joint arrangements.</p> <p>Staff further note that if there is a legal or regulatory restriction that prevents access to working papers, then this should be addressed with CPAB when entering into a CPAB access agreement. Please refer to CPAB Guidance for more information.</p>
Section 7.1 – Definitions		
<p>CPAB access agreement</p>	<p>One commenter believes further clarity should be provided to specify what “...significant component auditor’s records related to audit work...” means in the context of CPAB’s inspection of a significant component auditor. Specifically, is CPAB looking for access to perform a full file inspection, or will focus only be on the component auditor’s records relate to the specific focus area(s)?</p>	<p>Please refer to CPAB Guidance for more information.</p>
<p>CPAB access-limitation notice</p>	<p>One commenter believes that, for clarity, the definition should include the condition that a written notice is only issued when a significant component auditor has failed to provide CPAB with access despite there being no legal or regulatory restrictions to do so. To facilitate this change, the definition could be amended as follows: “...means a written notice issued by CPAB that a significant component auditor, despite there being no legal or regulatory restrictions to do so, has failed to provide CPAB was access...”</p>	<p>We do not agree with the proposed revision.</p> <p>The current wording states that this notice is issued when a significant component has failed to provide access upon CPAB’s request. Our intention is for this notice to be issued in all circumstances when voluntary access is not provided, regardless of whether there are legal or regulatory restrictions,</p>

		<p>in order to trigger the request for a component auditor to enter into a CPAB access agreement.</p> <p>Please refer to CPAB Guidance for more information on how legal or regulatory restrictions will be considered by CPAB.</p>
CPAB no-access notice	<p>One commenter believes that, for clarity, the definition should include the condition that a written notice is only issued when a significant component auditor has failed to provide CPAB with access despite there being no legal or regulatory restrictions to do so. To facilitate this change, the definition could be amended in manner similar to what was recommended for the” CPAB access-limitation” definition.</p>	<p>We do not agree with the proposed revision. The notice is intended to be a notification to participating audit firms that they may no longer use the identified public accounting firm as a significant component auditor based on the transition timing set out in the regulation.</p> <p>Please refer to CPAB Guidance for more information on how legal or regulatory restrictions will be considered by CPAB.</p>
Significant component auditor	<p>Two commenters noted that the definition differs from the PCAOB definition of ‘playing a substantial role’. Below is the notable feedback from the comments:</p> <ul style="list-style-type: none">• The PCAOB’s rule uses a denominator of total audit hours or fees for all participants (group and component teams), rather than only to principal auditor hours/fees only.• Reference made to PCAOB Release No. 2003-007, which refers to total engagement hours, rather than hours spent by the reporting issuer’s auditor, in commentary relating to the test of significance	<p>In response to the comments we have revised the definition.</p>

	<ul style="list-style-type: none">• There are significant interpretational issues as to how to measure costs and fees associated with component audits. For example, in many cases a statutory audit may be completed at a lower materiality level in conjunction with procedures performed for the group auditor. Interpretational guidance on matters such as this would be necessary for the requirements, as drafted, to be consistently applied.• By applying the PCAOB’s rule to the example contained in Policy Statement Section 7.1 that refer to 80 hours spent by the reporting issuer’s auditor and 20 hours spent by the component auditor would result in a significance calculation of 20% (20 hours / 100 hours). It is not clear to us if this was an intended difference in application, however we believe there is merit in amending the definition (and the example in the Policy Statement) such that the calculations under the Regulation and the PCAOB rule would result in a consistent determination of significance. <p>One commenter noted that there may be operational issues with using the most recent financial period to assess significance, especially when component auditors are from another network firm. For example, hours and fee information may be difficult for the group auditor and/or the reporting issuer to obtain prior to the audit report date.</p>	<p>Although there may be circumstances where hours and fee information are not complete prior to the audit report date, in circumstances where there is reason to believe the significant component auditor definition would apply, the reporting issuer and auditor should ensure the provision for access requirement in subsection 7.2(1) is complied with before the date of the auditor’s report.</p>
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	<p>One commenter advised the CSA to be cautious when providing a definition in a Regulation of a concept that is also defined in ISA/CAS 600 since there is risk that the two definitions will not be aligned. This could confuse auditors and cause application issues to arise when auditors are required to meet the requirements of both the Regulation and the group auditing standard. With the current ISA 600 in the process of being revised, there is an even greater risk that the definitions could be misaligned.</p>	<p>We have retained the term as originally proposed. We do not anticipate confusion in application given that our definition is unlikely to be similar to what would be included in an auditing standard.</p>
<p>Section 7.2 – Reporting Issuer to Direct Provision of Access</p>		
<p>“All reasonable steps” language in paragraph 7.2(1)</p>	<p>The paragraph requires all reporting issuers to take “all reasonable steps” to direct all significant components to provide CPAB with access. Below are comments with respect to this sentence:</p> <p>One commenter notes there is no guidance in the Policy Statement on how to interpret “reasonable steps” and whether these steps are only applicable if CPAB selects a file for inspection or if these steps are applicable for every engagement where there are significant components. If the latter, it may not be reasonable to assume data would be available to determine whether a component auditor is significant prior to the auditor report date. We believe these matters should be clarified in the Policy Statement.</p> <p>One commenter believes that the draft amendments should clarify that “reasonable steps” would not involve any actions that would be contrary to applicable laws and regulations, including privacy laws, and should address other considerations such as confidentiality obligations and legal privilege, which are relevant to the provision of CPAB access.</p> <p>One commenter is not clear what would be considered to constitute “reasonable steps” by a reporting issuer, particularly in light of the fact that the reporting issuer in many cases will have no relationship with the component auditor and will have no rights or interest in</p>	<p>In response to the comments we have revised the paragraph to remove reference to “all reasonable steps”.</p>

	<p>their working papers. Is a reasonable step to obtain confirmation in writing from the component auditor that a CPAB access agreement would be signed if requirement by CPAB? Would it be considered reasonable if such agreements were obtained only from component auditors whether the component was expected to be significant based on budgeted audit hours and costs recognizing that actual amounts may not be known until after the audit report is signed?</p> <p>One commenter is unclear why this requirement exists in all instances and in advance of any CPAB access-limitation notice. The commenter also believes that any effort by reporting issuers should only be required once access has been denied, despite there being no legal or regulatory restrictions to do so.</p>	<p>The requirement has been retained to ensure that, prior to an audit report being issued, the reporting issuer has agreed, and component auditor understands, that CPAB is permitted to inspect component auditor working papers. This requirement permits the component auditor to provide access voluntarily, instead of entering into a CPAB access agreement, if it so chooses.</p>
Section 7.3 – Failure to Voluntarily Provide Access to Inspect a Significant Component Auditor’s Records		
<p>Title of section</p>	<p>One commenter believes the title should be clarified to include the concept of “despite there being no legal or regulatory restrictions to do so”.</p>	<p>We do not agree. The requirements in Section 7.3 apply if a CPAB access-limitation notice is issued, which would occur when a significant component auditor has failed to provide CPAB access to its working papers upon request. Such notice is issued regardless of whether there are legal or regulatory restrictions</p>

		<p>preventing the significant component auditor from complying with CPAB’s request.</p> <p>Any legal or regulatory restrictions impacting access should be addressed with CPAB when entering into a CPAB access agreement. Please refer to CPAB Guidance for more information.</p>
<p>Delivery requirement in paragraph 7.3(1)(c)</p>	<p>The subparagraph requires the PAF to deliver a copy of the notice to the “regulator or securities regulatory authority”. One commenter believes this could be simplified such that the PAF only need to deliver the notice to the “principal regulator”.</p>	<p>Consistent with existing notification requirements in sections 5 and 6 of Regulation 52-108, staff have determined that notice needs to be provided to each regulator or securities regulatory authority that is impacted.</p> <p>As noted in the Policy Statement, 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.</p>
<p>Section 7.4 – Failure of a Significant Component Auditor to Enter into a CPAB Access Agreement if Requested to Do So</p>		
<p>Request to reconsider CPAB no-access notice</p>	<p>One commenter notes the following concerns that the issuance of a CPAB no-access notice could lead to scenarios where the firms best placed to audit the components are prevented from doing so when such component auditors are often better placed to perform the audit work</p>	<p>A no-access notice is issued if a significant component auditor chooses not to enter into a CPAB access agreement.</p>

	<p>locally for multiple reasons, including access to component management, language, knowledge of local laws and regulations and awareness of local risks. Therefore, the commenter believes the draft amendments should provide sufficient implementation guidance to ensure that circumstances where there are legitimate jurisdictional impediments to access do not result in the issuance of a CPAB no-access notice.</p>	<p>If there are legitimate jurisdictional impediments to access (e.g., legal restrictions), then this should be addressed with CPAB when entering into a CPAB access agreement.</p> <p>Please refer to CPAB Guidance for more information on how legal or regulatory restrictions will be considered by CPAB</p>
<p>Requirement not to use component auditor within 180 days of year end if receive a CPAB no-access notice</p>	<p>One commenter is of the view that, if a change in component auditor is required, the PAF and reporting issuer should be notified at least 270 days before year-end, to allow for sufficient time and to reduce the risk of additional costs being incurred. The comment believes that by the first 180 days of the fiscal year, the component auditor may have started the planning and at least some audit procedures, resulting potential additional costs for the reporting issuer.</p>	<p>We do not agree. We think that 180 days provides sufficient time for an audit firm to revise its audit plan to address a change in component auditor with minimal impact on cost since the notification would occur prior to an auditor engaging with an issuer in connection with its second quarter reporting.</p>
<p>Policy Statement</p>		
<p>Section 7.1 – Determination of what constitutes an ‘audit hour’ or ‘audit fee’</p>	<p>One commenter believes what constitutes an audit hour and audit fee should be limited to any hours and fees that are considered ‘audit fees’ as described in Forms 52-110F1 and 52-110F2, and should not include those hours and fees that are captured within the description of ‘audit related fees’ as audit related fees may include peripheral items that are not directly related to the conduct of the audit.</p>	<p>Staff do not agree with the commenter that the calculation should be limited to what are considered ‘audit fees’ as described in Forms 52-110F1 and 52-110F2.</p> <p>However, after further consideration, staff have</p>

		<p>determined that fees pertaining to the review of the issuer’s interim financial report, which are to be classified as ‘audit-related fees in accordance with Regulation 52-110, may be excluded.</p> <p>The guidance in Section 7.1 has been revised to address this view.</p>
<p>Section 7.1 – Examples of assessing significance based on hours or fees</p>	<p>One commenter believes there could be confusion as to whether the denominator [in the fees example] should be 100 or 80? For example, if the total hours incurred to perform an audit were 2,200 for the following parties;</p> <ul style="list-style-type: none"> • Group auditor – 1,000 • Component A – 1,000 • Component B – 200 <p>Based on the example, the auditor of component B would be considered a significant component auditor, although the work effort based on hours with respect to component B represents less than 10% of the overall effort.</p>	<p>This guidance has been revised to reflect changes made to the definition.</p>
<p>Anticipated Costs of Draft Amendments</p>		
<p>Costs to appoint a new auditor</p>	<p>Two commenters believe the costs associated with appointment of a new component auditor as a result of a CPAB no-access notice could be substantially higher than estimated in Annex C of the draft amendments.</p> <p>One of the commenters noted that the potential costs depend on many factors such as the amount of time required on the part of both management and the new auditor in the transitional period, the physical location of the new auditor, and the level of oversight</p>	<p>Staff acknowledge that there are various factors that can impact the amount of time and cost in the period of transition. However, staff do not believe such costs would be substantial when compared to the total audit</p>

	<p>required of the new component auditor versus the original one. Such costs are likely to be passed to the reporting issuers, potentially without corresponding benefits to audit quality</p> <p>The other commenter notes that Annex C did not consider the cost of the proposal process, the transition costs and the loss of efficiencies that may have been gained in previous audits. The commenter also noted that the PAF may incur costs to assess the new component auditor, as well as increased costs related to additional supervision in the period of transition. These costs may ultimately be billed through to the reporting issuer as additional fees.</p>	<p>fees associated with the audit. As noted in the “Anticipated Costs of Draft Amendments” discussion, it is anticipated that if the audit work being performed is identical then the fees for such work would be substantially similar.</p> <p>The decision on whether the additional costs of the PAF and component auditor are passed to the reporting issuer as additional fees will need to be discussed by those parties.</p>
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