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

RE: Proposed Repeal and Replacement of National Instrument 52-108 *Auditor Oversight*

Thank you for the opportunity to provide my comments regarding the proposed repeal and replacement of National Instrument 52-108 *Auditor Oversight*. I believe that it is important that the securities and financial regulatory agencies in Canada co-operate in an efficient and effective manner; as such I do not understand the following section of the proposed rule:

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 the descriptions CPAB provided the participating audit firm of all of the following:

(a) how the participating audit firm failed to comply with professional standards;

(b) each remedial action that CPAB imposed on the participating audit firm;

(c) for greater certainty, the time frame within which the participating audit firm must comply with each remedial action.

(3) The notice described in subsection (2) must be delivered to the regulator or, in Quebec, the securities regulatory authority, no later than 2 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 it is delivered to the regulator or, in Quebec, the securities regulatory authority.

In my opinion it would make more sense for CPAB to provide the required information regarding actions it has taken directly to the respective Securities Commissions at the same time it notifies the respective audit firm. By providing the information directly to the Commissions it reduces the risk that the Commissions may not be made aware of the information on a timely basis by the audit firm in question. As such I recommend removing this section and replacing it with notification from CPAB when a remedial action is requested.

I would also require CPAB to notify the respective Securities Commissions when it issues an Engagement Finding Report Type 1 (EFR 1) for a reporting issuer. An EFR 1 is a significant finding that requires the audit firm to respond in writing. An EFR 1 finding means CPAB has identified a significant GAAS or GAAP deficiency that:

- Relates to a material financial balance or transaction stream
- Has the potential to result in a material misstatement in the financial statements
- Will be included as a file specific finding in the inspection report

The response from the Audit Firm to CPAB should also be sent to the respective Securities Commissions. The reason for this is so the Commissions can update their own risk assessments of reporting issuers. Depending on the severity of the deficiency in the EFR 1 the Commission should consider preventing the Reporting Issuer from issuing securities until the EFR 1 is properly disposed off. This will protect investors from potential losses if the reporting issuer has to refile its financial statements as a result of a negative impact. Audit Firm’s should also have to disclose the receipt of an EFR 1 report to the audit committee of the reporting issuer. This will help the audit committee judge the quality of the audit work being performed by the respective audit firm and also will be necessary if the Securities Commissions place restrictions on the sale of securities until the EFR 1 is properly disposed off.

In addition in instances where the respective Securities Commissions become aware of potential GAAP violations by a reporting issuer the Commissions should inform CPAB so CPAB can update its risk universe and potentially review the audits conducted by the audit firms to determine if any deficiencies exist that require remedial action.

Thank you,

Tom Smith

Tomsmith6000@gmail.com