MNP LLP

June 23, 2017

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

Also, address comments ONLY to the following for distribution to other participating CSA members

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Me Anne-Marie Beaudoin
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Dear Sirs/Mesdames:

Re: CSA Consultation Paper 52-403 Auditor Oversight Issues in Foreign Jurisdictions

Thank you for the opportunity to comment on the above consultation paper. We have reviewed the consultation paper and have provided our responses to the specific questions below.

Question 1: Is a Component Auditor registration requirement the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms? If not, please suggest other ways to address CPAB's access challenges. Please explain the reasons for your views.

We do not believe that Component Auditor registration is the way to proceed to assist CPAB in obtaining access to inspect work performed by foreign audit firms. We believe the responsibility for ensuring the standards under which component auditors are involved in an audit of Canadian Reporting Issuers who have operations in foreign jurisdictions rests with the group auditor.

CAS 600 *Special Considerations — Audits of Group Financial Statements (including the Work of Component Auditors)* ("CAS 600") deals with the special considerations that apply to group audits, in particular those which involve component auditors. The group engagement team/partner are responsible for:

- the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances;
- evaluating whether sufficient appropriate audit evidence has been obtained which includes an assessment of the audit work performed by the component auditors on the financial information of the components, on which to base the group audit opinion; and
- satisfying themselves that the component auditors have the appropriate competence and capabilities.

If CPAB satisfies themselves that the Group auditor has met the requirements under CAS, we believe it would be unnecessary to access work performed by the foreign audit firms.

Question 2: Are there any additional implications, other than those discussed above, to consider in assessing whether to require a Component Auditor to register with CPAB?

We agree that the introduction of a Component Auditor registration requirement would create challenges, not only with finding Component Auditors or the potential for higher audit fees charged to reporting issuers but also for the following reasons:

- 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.;
- this may vastly reduce the number of component auditor firms that would be available to issuers, perhaps only leaving them with Big Four firms to choose from (if that) as many of the firms working as component auditors today will likely not agree to registration with CPAB because it just does not form a large enough body of work to undertake the additional administrative and other costs involved in becoming a registrant. This will reduce competition and create further hardship for Issuers (particularly Venture and CSE Issuers);

- possibility that the capital market in Canada will become less competitive;

- the number of Canadian reporting issuers that involve foreign components where a foreign Component Auditor was involved in a significant portion of the audit is a small piece of the market. As outlined in the paper, these entities only accounted for 11% of the total market capitalization for all reporting issuers on TMX exchanges. Of this 11%, it is not clear what portion represents foreign operations; however, it is noted that 90% of the market capitalization involved foreign components in the United States, United Kingdom and Australia which are not considered high risk jurisdictions.
- there will likely still be restrictions in place in certain higher-risk countries (China, Egypt, Ghana, etc.) which does not resolve CPABs concerns; and
- the Canadian capital market and regulatory environment is not the same as the United States and therefore it would not be appropriate to make a comparison.

Question 3: If NI 52-108 is amended to require Component Auditor registration:

a) **Should the requirement be based on an asset and revenue threshold that is equivalent to that used in the PCAOB's 'substantial role' threshold? If not, please specify your recommended threshold, if any, and explain why that threshold would be more appropriate.**

b) **Should certain components of an entity be exempt when applying the threshold referred to in (a), such as investments accounted for using the equity method**?

We do not believe NI 52-108 should be amended to require Component Auditor registration.

Question 4: Would additional transparency about situations where CPAB has been prevented from inspecting the work of a PAF or Component Auditor that plays a 'substantial role' be useful to investors and others, and if so in what situations? Please explain the reasons for your views, including any potential implications that we should consider if such disclosure was required.

We refer to our response to question 1 above. The group engagement partner is responsible for the direction, supervision and performance of the group audit engagement in compliance with professional standards and applicable legal and regulatory requirements, and whether the auditor's report that is issued is appropriate in the circumstances.

Further, CPAB selects a sample of files each year, which represents a small number of Canadian Reporting entities. Consistency and timeliness of disclosure need to be considered. To require disclosure in those specific circumstances for files selected would be unfair and lack consistency across all Canadian Reporting entities. As well, CPAB file reviews often take place several months after the entities have released their financial statements. Requiring disclosure in situations where CPAB has been prevented from inspecting the work as described above would not be timely.

Question 5: If we were to require this disclosure, who should provide the disclosure – CPAB or reporting issuers? Please explain your reasons for your views.

We believe that further analysis is required given the consistency and timeliness concerns identified above before we can provide an opinion on who should provide the disclosure.

MNP LLP (MNP) is one of Canada's largest chartered accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations and municipalities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

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Senior Vice President, Assurance & National Leader, Public Companies

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