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The Secretary
Ontario Securities Commission
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Via: comments@osc.gov.on.ca

Mme Anne-Marie Beaudoin
Corporate Secretary
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To: 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

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

Grant Thornton LLP (hereinafter “we”) would like to thank you for the opportunity to provide comments on the Canadian Securities Administrators (“CSA”) Consultation Paper 52-403 *Auditor Oversight, Issues in Foreign Jurisdictions*.

Overall, we have concerns that amendments to National Instrument 52-108 *Auditor Oversight* (“NI 52-108”) at this time would be premature given the upcoming changes to International Auditing Standard 600, *Special Considerations-Audits of Group Financial Statements* (“ISA 600”) and International Standards on Quality Control, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (“ISQC-1”). These concerns, as well as our comments should the CSA adopt the proposed amendments, are described in our responses to the questions as outlined 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.

In our view, the proposed amendments to NI 52-108 would be premature, and potentially unnecessary, given that proposed changes to ISA 600 are expected to be approved by March 2019, in addition to upcoming changes to ISQC-1. We believe the proposed changes to these standards should be understood first before implementing any changes to these regulations.

While we do not dispute that the Canadian Public Accountability Board (“CPAB”) has encountered access challenges in certain jurisdictions, it has been our experience that CPAB has been satisfied by the extent of documentation in our files as principal auditor. Our experience has not demonstrated a need for urgent action in this regard.

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 concur with the two challenges identified in the Consultation Paper, namely difficulties in finding Component Auditors to perform the work and possibility of increased audit fees. We would add that these challenges are exacerbated by the fact that Canada is a relatively small market on the global scale. Foreign firms, even when part of a network of member firms, may not necessarily be willing to open up their entire firm to quality control inspection by CPAB for a Canadian component audit, whereas they might be willing to do so for the larger US market. These component auditors often already have their own regulators and internal quality control inspection by their own firms and the member firm network. On this basis, we believe the risk of increased costs to Reporting Issuers would be amplified for Canadian registrants.

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.**

In the absence of defined quantitative threshold, auditors will apply their judgement. On application, the judgemental thresholds applied may significantly differ from auditor to auditor. As noted above, we believe any amendment of NI 52-108 would be premature at this time. If NI 52-108 is amended, however, we believe quantitative thresholds would be best suited to determine whether a Component Auditor must register. This will eliminate any potential differences of opinion between CPAB and the auditor. However, in our view, these thresholds do not have to be identical to those of the PCAOB. Instead, the CSA could consider whether a significantly higher threshold could partially mitigate the challenges to which we have referred in Question 2 by requiring Component Auditors of only truly significant components subject to registration.

- (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?**

Yes, we believe there should be exemptions when this threshold may be more difficult to apply or where the component has a less pervasive impact to the overall results of a reporting issuer (e.g. equity-accounted investments).

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.

Conceptually, audit committees may find this information useful in fulfilling their oversight role of external auditors on behalf of investors and other stakeholders. However, it is our view that any form of public disclosure by CPAB that gives specific

information about Reporting Issuers to investors would break the confidentiality of Reporting Issuers and firms subject to CPAB inspection and question whether an amendment to the confidentiality provisions of the *Canadian Public Accountability Board Act* would be necessary to allow this to happen.

We are also cognizant of “notification fatigue” and believe users may not find these disclosures valuable unless the user was specifically looking for such information. Furthermore, public disclosure could become punitive to Reporting Issuers, and in particular to smaller entities with foreign operations, as it may be used solely by those seeking an avenue to pursue litigation.

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

We envision that the audit firm would disclose any such findings to the audit committee of the Reporting Issuer, possibly through an amendment to the CPAB Protocol. There would not be public disclosure by either CPAB or Reporting Issuers. The audit committee is tasked with oversight on behalf of investors and as such, we do not feel that the benefits of any further disclosure outweigh the risks outlined in our response to Question 4 above.

If you wish to discuss our comments or concerns, please contact Kevin Ladner, FCPA, CA, CBV at Kevin.Ladner@ca.gt.com or +1 416 360 4983.

Yours sincerely,



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