

December 30, 2019

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  
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**Re: Proposed Amendments to National Instrument 52-108 Auditor  
Oversight and Proposed Changes to Companion Policy 52-108 Auditor  
Oversight**

Dear Sirs,

We are pleased to provide our comments on the above proposed National Instrument ("NI") and Companion Policy ("CP").

We agree with the effort to enhance public confidence in the integrity of financial reporting, and our firm supports CPAB obtaining access to significant component audit files that they seek as part of their inspection process. Included below is our response to the specific question followed by some general observations on the proposed amendments in the NI and CP.

**Question: The proposed definition of significant component auditor captures audit work of financial information related to a component, whose activities the reporting issuer has the power to direct on its own or jointly with another person or company. Are there specific limitations or concerns with the inclusion of components where the reporting issuer has power to direct jointly with another person or company? If so, please explain.**

We do not anticipate any specific limitations or concerns with respect to the inclusion of components where the reporting issuer has power to direct jointly with another person or company.

## **NI Paragraph 7.1- Definitions:**

### **a) "CPAB access agreement"**

Within the definition of the CPAB access agreement, we believe 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 the significant component auditor's records to perform a full file inspection, or rather will CPAB's inspection be focused only on the component auditor's records related to the specific focus area(s)?

### **b) "CPAB access-limitation notice"**

For clarity, we believe 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 with access...". We also believe that similar language should be added to the "CPAB no-access notice" definition.

### **c) "significant component auditor"**

We believe that it is helpful that the definition of a significant component auditor is substantially similar to the PCAOB's written definition of a substantial role auditor as contained in PCAOB Rule 1001(p)(ii). While the wording of the NI is similar to the PCAOB's definition of substantial role, in application, the PCAOB's rule compares component hours/fees to total engagement hours/fees (principal auditor + components), rather than only to principal auditor hours/fees only. PCAOB Release No. 2003-007 refers to total engagement hours, rather than hours spent by the reporting issuer's auditor, in commentary related to the test of significance. Therefore, when the PCAOB's definition is applied, the denominator in the calculation would include the applicable metric (hours or fees) of both the reporting issuer's auditor and the component auditor. As such, applying the PCAOB's rule to the example contained in CP Section 7.1 that refers 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 example in the CP) such that the calculations under the NI and the PCAOB rule would result in a consistent determination of significance.

## **NI Paragraph 7.2 (1)**

This paragraph creates a requirement for all reporting issuers to take "all reasonable steps" to direct all significant components to provide CPAB with access. It is unclear why this requirement exists in all instances and in advance of any CPAB access-limitation notice (as defined within), and we believe 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.

## **NI subtitle "Failure to Voluntarily Provide Access to Inspect a Significant Component Auditor's Records"**

We believe that the title should be clarified to include the concept of "despite there being no legal or regulatory restrictions to do so".

## **NI paragraph 7.3(1)(c)**

This subparagraph requires the PAF to deliver a copy of the notice to the "regulator or securities regulatory authority", which we believe could be simplified such that the PAF only needs to deliver the notice to the "principal regulator".

**CP Section 7.2– Determination of what constitutes an ‘audit hour’ or ‘audit fee’**

We believe 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.

We will be pleased to discuss any of our comments further if required. Any questions can be directed to Julia Suk ([jsuk@deloitte.ca](mailto:jsuk@deloitte.ca)) or Andrew Macartney ([amacartney@delotte.ca](mailto:amacartney@delotte.ca)).

Yours truly,

*Deloitte LLP*

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