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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
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January 2, 2020

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Re: Canadian Securities Administrators (“CSA”) Proposed Amendments to NI 52-108

Dear Secretary of the Ontario Securities Commission and M^c Philippe Lebel:

Thank you for the opportunity to provide our views on proposed amendments to National Instrument 52-108 and the related Companion Policy (“Proposed amendments”). This letter should not be interpreted as representing the views of any other member of the EY global network of member firms.

In our June 2017 response letter to CSA Consultation Paper 52-403 (“CP 52-403”), we commented that a model of component auditor registration is not a desirable international model, and that 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 at the audit oversight authority level. We continue to believe 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. We believe that the Canadian Public Accountability Board (“CPAB”)

should continue to prioritize enhancement of international cooperation amongst national oversight regulators on areas such as access to work papers.

We recognize and appreciate the changes that have been made as compared to the previous registration proposal in CP 52-403. We encourage the CSA to consider the following additional changes and/or clarifications before the proposal is finalized.

Application of CAS 600

Under Canadian Auditing Standard (CAS) 600 “Special considerations- Audits of Group Financial Statements”, the group engagement team assigns scopes to components to obtain sufficient, appropriate audit evidence to reduce audit risk to an acceptably low level and thereby draw reasonable conclusions on which to base the opinion on the group financial statements. When a component is considered significant or determined to be in scope as a result of applying CAS 600.29, the component auditor is responsible for completing the requested audit procedures as specified by the group engagement team and reporting thereon. CAS 600.30 specifies the nature, timing and extent of the involvement of the group engagement team with the component auditor, which includes discussing with the component auditor or component management those of the component's business activities that are significant to the group, including the risk of material misstatement due to fraud and reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. CAS 600 outlines that the documentation may take the form of a memorandum that reflects the component auditor's conclusions with regard to the identified significant risks. In some instances, the group engagement team may review certain areas of the work performed by component auditors in more detail to support the conclusions made by the component auditors and to maintain an appropriate level of involvement in the component auditor's work. The group engagement team either documents these reviews in a memorandum, or maintains specific documents reviewed in the group audit documentation. CAS 600 does not require the group engagement team to review every working paper within the component team's file, but specifically notes that the parts of the audit documentation of the component auditor that will be relevant to the group audit may vary depending on the circumstances.

The Proposed amendments do not address whether CPAB's review of the component auditor work papers will be focused 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 response could lead to redundancies and higher costs for reporting issuers without commensurate benefits. We believe that CPAB's inspection of the group auditor should be designed to address the group auditor's compliance with CAS 600, with a focus on reviewing component auditor documentation that is relevant to the significant risks of material misstatement of the group financial statements.

Additionally, the International Auditing and Assurance Standards Board is currently revising ISA 600, which will be adopted in Canada as a revised CAS 600. It may be prudent to delay finalization of the Proposed amendments until the revised CAS 600 is issued. For example, if ISA 600 (Revised) does not retain the notion of significant component, then the term “significant component auditor” may lead to confusion as the Proposed amendments could be misaligned with ISA 600 (Revised) and ultimately CAS 600 (Revised). The revised ISA 600 (and other supporting guidance) may also contain further clarifying guidance on the responsibility of the group auditor that could be relevant to the implementation of the Proposed amendments.

CPAB No-access Notice Scenario

If CPAB were to issue No-access notices under the Proposed amendments, this could lead to scenarios where the firms best placed to audit the components are prevented from doing so. We note that component auditors are often better placed to perform the audit work locally for multiple reasons, including access to component management, language, knowledge of local laws and regulations and awareness of local risks. Therefore, we believe the Proposed amendments should provide sufficient implementation guidance (see further discussion below) to ensure that circumstances where there are legitimate jurisdictional impediments to access do not result in the issuance of No-access notices.

In addition, we believe that the analysis of costs associated with the appointment of a new component auditor as a result of a No-access notice could be substantially higher than estimated in Annex C of the Proposed amendments. 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 required of the new component auditor versus the original one. Such costs are likely to be passed to reporting issuers, potentially without corresponding benefits to audit quality.

Implementation Guidance

We believe additional implementation guidance should be included in the Proposed amendments to help ensure consistency of application.

Section 7.2 of the Proposed amendments states that a reporting issuer “...must take all reasonable steps to direct the significant component auditor to provide CPAB with access...”. However, no guidance is provided in the Companion policy 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 audit report date. We believe these matters should be clarified in the Companion policy.

Further, we believe that the Proposed 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 access to CPAB.

Proposed Definition of Significant Component Auditor

The proposed definition of a “significant component auditor” differs from the Public Company Accounting Oversight Board’s (“PCAOB”) Rules regarding “playing a substantial role.” Part (a) of the proposed definition in Section 7.1 assesses significance based on the total hours spent by the component team compared to the total hours spent by the reporting issuer’s auditor. This is different from the PCAOB’s Rule 1001(p)(ii) on substantial role, for which the PCAOB uses a denominator of total audit hours for all participants (group and component teams). The same issue arises in part (b) of the definition with respect to the consolidated audit fees. Assessing significance based on a comparison of the hours or fees of the component auditor, as compared to the total hours or fees of the reporting issuer’s auditor, will result in more components being significant under the CSA definition. Using total hours or fees (inclusive of hours or fees incurred by all component teams) may provide a better measure of significance. Additionally, 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.

Also, as noted above, 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.

Additionally, the proposed definition of “significant component auditor” refers to a component auditor that performs work on financial information related to a component of a reporting issuer, whose activities the reporting issuer has the power to direct on its own or jointly with another person or company. 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 Companion policy should address this situation and what would constitute “reasonable steps” for reporting issuers in this circumstance.

Specific Jurisdictional Restrictions

Annex C to the Proposed amendments 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.” We interpret 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 sign an access agreement with CPAB and would not be barred from acting as a component auditor while these impediments remained in place. In our view, this is



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an important clarification that should be included in the main body of the Proposed amendments. We also think it would be helpful to clarify what CPAB and/or the CSA consider to be valid legal impediments.

We appreciate the opportunity to comment on the Proposed amendments. Please contact Massimo Marinelli (Managing Partner- Assurance) or Laney Doyle (Professional Practice Director) if you wish to discuss these or any other matters.

Ernst + Young LLP