

5.1.3 National Policy No. 31 Change of Auditor of a Reporting Issuer that is an Investment Fund

**NATIONAL POLICY NO. 31
CHANGE OF AUDITOR OF A REPORTING ISSUER
THAT IS AN INVESTMENT FUND**

PART 1 INTRODUCTION AND PURPOSE

- 1.1 The purpose of this Policy Statement is to specify certain reporting requirements that apply when the auditor of a reporting issuer that is an investment fund as defined in National Instrument 51-102 *Continuous Disclosure Obligations* changes. These requirements will help to ensure that the public interest is served and that relevant information is disclosed to shareholders, regulators and other members of the public.
- 1.2 This Policy Statement replaces National Policy Statement No. 31 which was issued by the Canadian Securities Administrators in May 1991.

PART 2 APPLICATION

- 2.1 This Policy Statement only applies to reporting issuers that are not subject to National Instrument 51-102 *Continuous Disclosure Obligations*.
- 2.2 This Policy Statement does not in any way affect the rights or obligations of a reporting issuer under the laws in which it is incorporated or organized.
- 2.3 This Policy Statement does not apply to a change of auditor when such a change is required by statute.
- 2.4 This Policy Statement requires a reporting issuer to prepare a notice of change of auditor, as described in paragraph 4.6. whenever:
- (a) the reporting issuer receives notification from its auditor of the auditor's resignation or refusal to stand for reappointment (a "Resignation"); or
 - (b) the reporting issuer decides to propose to its shareholders that the auditor be removed from office during the auditor's term of office, or there is a proposal or intention not to reappoint the auditor on the expiry of the auditor's term of office (a "Termination").
- 2.5 This Policy Statement requires the auditor referred to in paragraph 2.3(a) and 2.3(b) (the "former auditor") to prepare the letter referred to in paragraphs 4.7 and 4.8 and the proposed successor auditor (the "successor auditor") to prepare the letter referred to in paragraph 4.9.
- 2.6 A reporting issuer that is a registrant with the U.S. Securities and Exchange Commission (the "SEC") may satisfy the requirements of this Policy Statement by complying with SEC Regulation S-K, item 304, provided that the information filed with the SEC is, at the same time, filed, delivered and published this Policy Statement.
- 2.7 This Policy Statement is effective for Terminations or Resignations occurring after May 31, 1991.

PART 3 REPORTABLE EVENTS

- 3.1 The reporting obligations set out in this Policy Statement require disclosure by the reporting issuer of any reportable event which was occurred prior to a Resignation or Termination. A reportable event is an occurrence in the relationship between the reporting issuer and the former or successor auditor which may have been a contributing factor to the Resignation or Termination.
- 3.2 Reportable events are those that occurred in connection with:
- (a) the audits of the reporting issuer's two most recently completed fiscal years; or
 - (b) any period subsequent to the most recently completed period for which an audit report was issued and preceding the date of the Resignation or Termination.
- 3.3 There are three types of reportable events: disagreements, unresolved issues and consultations.

Disagreements

- 3.4 Disagreements refer to any matter of audit scope, accounting principles or policies or financial statement disclosure that, if not resolved to the satisfaction of the former auditor, would have resulted in a reservation in the auditor's report.
- 3.5 Disagreements include both those resolved to the former auditor's satisfaction and those not resolved to the former auditor's satisfaction. Disagreements should have occurred at the decision making level, i.e. between personnel of the reporting issuer responsible for the finalization of its financial statements and personnel of the auditing firm responsible for authorizing the issuance of audit reports with respect to the reporting issuer.
- 3.6 The term disagreement is to be interpreted broadly. It is not necessary for there to have been an argument to have had a disagreement, merely a difference of opinion. The term disagreement does not include initial differences of opinion, based on incomplete facts or preliminary information, that were later resolved to the former auditor's satisfaction, provided that the reporting issuer and the former auditor do not continue to have a difference of opinion upon obtaining additional facts or information.

Unresolved Issues

- 3.7 Unresolved issues refer to matters which came to the former auditor's attention and which, in the former auditor's opinion, materially impact on the financial statements or audit reports (or which could have a material impact on them), where the former auditor has advised the reporting issuer about the matter and:
- (a) the former auditor has been unable to fully explore the matter and reach a conclusion as to its implications prior to a Resignation or Termination;
 - (b) the matter was not resolved to the former auditor's satisfaction prior to a Resignation or Termination; or
 - (c) the former auditor is no longer willing to be associated with the financial statements prepared by management of the reporting issuer.

Consultations

- 3.8 Consultations refer to situations where the reporting issuer (or someone acting on its behalf) consulted the successor auditor regarding:
- (a) the application of accounting principles to a specified transaction (either proposed or completed);
 - (b) the type of audit opinion that might be rendered on the reporting issuer's financial statements; or
 - (c) a disagreement as defined in paragraphs 3.4 to 3.6 of this Policy Statement;
- and a written report or seriously considered oral advice was provided by the successor auditor to the reporting issuer.

PART 4 REPORTING OBLIGATIONS

- 4.1 When a Resignation or Termination occurs the reporting issuer must:
- (a) prepare a notice of change of auditor (a "Notice") (see paragraph 4.6);
 - (b) obtain
 - (i) a letter from the former auditor (see paragraphs 4.7 and 4.8) and
 - (ii) a letter from the successor auditor (see paragraph 4.9); and,
 - (c) obtain written confirmation that the Notice and letters referred to in subparagraphs (a) and (b) have been reviewed by the audit committee or board of directors of the reporting issuer.
- 4.2 The documents mentioned in paragraph 4.1 are referred to as the Reporting Package. The reporting issuer must include a copy of the Reporting Package in the information circular accompanying the notice of any meeting of shareholders at which action is to be taken concerning a change of auditor. If such a meeting is not held because the laws in which the reporting issuer is incorporated or organized do not require a meeting of shareholders be held in

connection with a change of auditor, a copy of the Reporting Package must be included in the information circular for the first meeting of shareholders held subsequent to the change of auditor.

- 4.3 The reporting issuer must deliver the Reporting Package to:
- (a) the securities administrators in each province or territory in which it is a reporting issuer (the "relevant securities administrators");
 - (b) the former auditor; and
 - (c) the successor auditor within the time period imposed by paragraph 4.12.
- 4.4 If there are any reportable events, the information contained in the Reporting Package must be described in a press release which is to be issued to appropriate media and filed with the relevant securities administrators.
- 4.5 If the former auditor or the successor auditor becomes aware that the required disclosures under this Policy Statement have not been made by the reporting issuer (as may happen when an auditor has not been asked to furnish the required letter), the auditor must promptly advise the reporting issuer in writing and deliver a copy of the letter to the relevant securities administrators.

Notice of Change of Auditor

- 4.6 The Notice must include a statement as to whether:
- (a) the former auditor resigned, was asked to resign, declined to stand for reappointment or was not to be proposed for reappointment and the date of it thereof;
 - (b) there were any reservations in the auditor's reports for the periods specified in paragraph 3.2 of this Policy Statement, and if there were, a description of each such reservation;
 - (c) the Termination or the Resignation and the recommendation to appoint the successor auditor was considered or approved by the audit committee or the board of directors of the reporting issuer;
 - (d) there were any reportable events and, if there were, a description of each reportable event that includes the following information:
 - (i) for disagreements and unresolved issues:
 - (a) a description of each reportable event;
 - (b) a statement as to whether the audit committee or board of directors discussed the subject matter of each reportable event with the former auditor; and
 - (c) a statement as to whether the reporting issuer authorized the former auditor to respond fully to the inquiries of the successor auditor concerning the subject matter of each reportable event and, if not, a description of the nature of any limitation and the reason for it;
 - (ii) for consultations:
 - (a) identification of the issues that were the subjects of consultation;
 - (b) a brief description of the views of the successor auditor as expressed orally or in writing to the reporting issuer on each issue; and
 - (c) a statement as to whether the former auditor was consulted by the reporting issuer and, if so, provide a summary of his views; and if, in the opinion of the reporting issuer, there were no reportable events, a statement to that effect.

Letter from the Former Auditor

- 4.7 When a copy of the Notice is delivered to the former auditor in accordance with paragraph 4.10, the reporting issuer must request that the former auditor respond by letter. In this letter, addressed to the relevant securities administrators, the former auditor must state whether or not they agree with the information contained in the Notice, based on the

former auditor's knowledge of the information at the time. If the former auditor does not agree with the information in the Notice, the former auditor must give reasons in the letter.

- 4.8 If the reporting issuer is not in a position to provide the reasons for a Resignation in the Notice, the reporting issuer must request that the former auditor describe the reasons in the letter from the former auditor.

Letter from the Successor Auditor

- 4.9 When a copy of the Notice is delivered to the successor auditor in accordance with paragraph 4.10, the reporting issuer must request that the successor auditor respond by letter. In this letter, addressed to the relevant securities administrators, the successor auditor must state whether or not they agree with the information contained in the Notice, based on the successor auditor's knowledge of the information at the time. If the successor auditor does not agree with the information in the Notice, the successor auditor must give reasons in the letter.

Timing

- 4.10 Within ten calendar days of the date of the Resignation or Termination (the "Notification Date"), the reporting issuer must prepare the Notice and deliver it to the former and successor auditors.
- 4.11 Within twenty calendar days of the Notification Date, the former auditor must prepare the letter from the former auditor and the successor auditor must prepare the letter from the successor auditor and each deliver them to the reporting issuer and the other auditor.
- 4.12 Within thirty calendar days of the Notification Date, the reporting issuer must deliver the Reporting package and issue and file the press release as required in paragraphs 4.3 and 4.4.

PART 5 RESOLVING QUESTIONS

- 5.1 Where a reporting issuer has reporting obligations in more than one jurisdiction and the reporting issuer, the former auditor or the successor auditor need to resolve a question as to the application of this Policy Statement, the questions must be addressed to the jurisdiction which would be selected by the reporting issuer for clearing documents in accordance with National Policy Statement No. 1. Other securities administrators normally will accept the principal jurisdiction's decisions but this procedure implies no surrender of jurisdiction by any securities regulatory authority.