

Chapter 5

Rules and Policies

5.1.1 NI 52-108 Auditor Oversight

NATIONAL INSTRUMENT 52-108 AUDITOR OVERSIGHT

PART 1 DEFINITIONS AND APPLICATION

Definitions

1. In this Instrument

"CPAB" means the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes, incorporated as a corporation without share capital under the *Canada Corporations Act* by Letters Patent dated April 15, 2003;

"CPAB rules" means the rules and bylaws of CPAB, as amended from time to time;

"participating audit firm" means a public accounting firm that has entered into a participation agreement and that has not had its participant status terminated or, if its participant status was terminated, the status has been reinstated by CPAB;

"participation agreement" means a written agreement between CPAB and a public accounting firm in connection with CPAB's program of practice inspections and the establishment of practice requirements;

"professional standards" means the standards, as amended from time to time, listed in section 300 of CPAB rules that are applicable to participating audit firms;

"public accounting firm" means a person or company engaged in the business of providing the services of a public accountant.

PART 2 AUDITOR OVERSIGHT

Public Accounting Firms

2. A public accounting firm that prepares an auditor's report with respect to the financial statements of a reporting issuer must be, as of the date of the auditor's report
- (a) a participating audit firm,
 - (b) in compliance with any remedial action referred to in subsection 5(1), and
 - (c) in compliance with the notice requirements of subsections 5(1) and (2).

Notice to Reporting Issuer if Public Accounting Firm Not in Compliance

3. (1) If a public accounting firm has been appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer and, at any time before signing the auditor's report, the public accounting firm is not in compliance with the requirements of paragraphs 2(a), (b) or (c), the public accounting firm must deliver to the reporting issuer a notice in writing that it is not in compliance within 2 business days of first becoming aware of its non-compliance.
- (2) A public accounting firm that previously delivered a notice to a reporting issuer under subsection(1) must not notify the reporting issuer that it is in compliance with paragraph 2(a), (b) or (c) unless the public accounting firm has been informed in writing by CPAB that the circumstances that gave rise to the notice no longer apply.
- (3) A public accounting firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the reporting issuer.

Reporting Issuers

4. A reporting issuer that files its financial statements accompanied by an auditor's report must have the auditor's report prepared by a public accounting firm that, as of the date of the auditor's report,
- (a) is a participating audit firm, and
 - (b) has not delivered to the reporting issuer a notice under subsection 3(1) or, if it has delivered to the reporting issuer a notice under subsection 3(1), the public accounting firm has notified the reporting issuer that the circumstances that gave rise to the notice no longer apply.

PART 3 NOTICE

Notice of Remedial Action to the Regulator or the Securities Regulatory Authority

5. (1) A participating audit firm appointed to prepare an auditor's report with respect to the financial statements of a reporting issuer must deliver a notice to the regulator or, in Quebec, the securities regulatory authority, if any of the following occurs:
- (a) CPAB notifies the participating audit firm in writing that it requires the participating audit firm to take one or more of the following remedial actions:
 - (i) terminate an audit engagement;
 - (ii) engage an independent monitor to observe and report to CPAB on the participating audit firm's compliance with professional standards;
 - (iii) engage an external reviewer or supervisor to oversee the work of the participating audit firm;
 - (iv) limit the type or number of new reporting issuer audit clients the participating audit firm may accept;
 - (b) CPAB notifies the participating audit firm in writing that it must disclose to the regulator or, in Quebec, the securities regulatory authority, any remedial action not referred to in paragraph (a);
 - (c) CPAB publicly discloses a remedial action with which the participating audit firm must comply.
- (2) The notice required under subsection (1) must be in writing and must include all of the following:
- (a) how the participating audit firm failed to comply with professional standards;
 - (b) the name of each reporting issuer whose audit file was referred to by CPAB in its communications with the participating audit firm as the basis, in whole or in part, for CPAB's conclusion that the participating audit firm failed to comply with professional standards;
 - (c) each remedial action that CPAB imposed on the participating audit firm, as described by CPAB;
 - (d) the time period within which the participating audit firm must comply with each remedial action, as described by CPAB.
- (3) A participating audit firm must deliver the notice required under subsection (2) to the regulator or, in Quebec, the securities regulatory authority, no later than 2 business days after the date that CPAB notifies the participating audit firm that it must comply with any remedial action under paragraph (1)(a), (b) or (c).
- (4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day that the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Additional Notice Relating to Defects in the System of Quality Control

6. (1) If CPAB required a participating audit firm to comply with any remedial action relating to a defect in the participating audit firm's system of quality control, and CPAB notifies the participating audit firm in writing that it has failed to address the defect in its system of quality control to the satisfaction of CPAB within the time period required by CPAB, the participating audit firm must deliver a notice to all of the following:

- (a) for each reporting issuer for which the participating audit firm is appointed to prepare an auditor's report,
 - (i) the audit committee, or
 - (ii) if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed;
 - (b) the regulator or, in Quebec, the securities regulatory authority.
- (2) The notice required under subsection (1) must be in writing and must describe all of the following:
- (a) the defect in the participating audit firm's system of quality control identified by CPAB;
 - (b) the remedial action imposed by CPAB, including the date the remedial action was imposed and the time period within which CPAB required the participating audit firm to address the defect in its system of quality control;
 - (c) why the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.
- (3) A participating audit firm must deliver the notice required under subsection (1) no later than 10 business days after the participating audit firm received notice from CPAB in writing that the participating audit firm failed to address the defect in its system of quality control within the time period required by CPAB.
- (4) The participating audit firm must deliver a copy of a notice required under this section to CPAB on the same day the notice is delivered to the regulator or, in Quebec, the securities regulatory authority.

Notice Before New Appointment

7. (1) A participating audit firm that is seeking an appointment to prepare an auditor's report with respect to the financial statements for a financial year of a reporting issuer must deliver a notice to the reporting issuer's audit committee or, if the reporting issuer does not have an audit committee, the person or company responsible for reviewing and approving the reporting issuer's financial statements before they are filed, if
- (a) the participating audit firm did not audit the financial statements of the reporting issuer for the immediately preceding financial year, and
 - (b) CPAB informed the participating audit firm within the preceding 12-month period that the participating audit firm failed to address a defect in its system of quality control to the satisfaction of CPAB.
- (2) The notice required under subsection (1) must be in writing and include the information referred to in subsection 6(2).

**PART 4
EXEMPTION**

Exemption

8. (1) The regulator or the securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions and restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant such an exemption.
- (3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of NI 14-101 opposite the name of the local jurisdiction.

**PART 5
REPEAL AND EFFECTIVE DATE**

Repeal

9. National Instrument 52-108 *Auditor Oversight* is repealed.

Effective Date

10. This Instrument comes into force on September 30, 2014.