



Canadian Public Accountability Board  
Conseil canadien sur la reddition de comptes

## **Guidance regarding CPAB's process for requirements in NI 52-108 related to access to working papers of significant component auditors in foreign jurisdictions**

To fulfill its mandate, The Canadian Public Accountability Board (CPAB) inspects its participating audit firms (PAFs) to assess their compliance with rules and professional standards in their preparation of the auditor's report of the financial statements of Canadian reporting issuers (RI). Several Canadian RIs have operations in a foreign jurisdiction; PAFs, when acting as the group auditor, may request an audit firm in a foreign jurisdiction (component auditor as defined by National Instrument 52-108 (NI 52-108)) to perform audit work that forms part of the audit evidence supporting a PAF's auditor's report on the group financial statements. In order to directly assess the component auditor's work, the PAFs evaluation of that work as group auditor, and whether sufficient audit evidence has been obtained to support a PAF's audit opinion, CPAB may need to access a substantial portion of the audit work performed by the component auditor. As a group auditor's compliance with CAS 600 alone is not sufficient, CPAB's regulatory assessment may include a review of a component auditor's working papers related to CPAB's inspection of the PAF.

The decision to request access to a component auditor's working papers is made during the inspection of a RI audit. Once CPAB has identified the focus areas and has access to the group audit file, it will determine whether to request access to a significant component auditor's file. There are many factors that are considered before requesting access to a component auditor's working papers including, but not limited to: the number of component auditors and the relative significance of their audit work to the inspection focus areas; the nature and extent of the audit work; the oversight by the PAF; and the evidence retained in the group audit file.

For clarity, CPAB will not request access to component auditor's working papers other than those directly related to its review of the PAFs audit file. CPAB will not seek access to inspect the component auditor's system of quality controls.

The following is an overview of the process CPAB follows when seeking to access significant component auditor's working papers in a jurisdiction outside Canada pursuant to NI 52-108.

### **How CPAB accesses significant component auditor working papers outside of Canada**

When seeking to access the working papers of a significant component auditor in a foreign jurisdiction, CPAB takes the following sequential steps:

1. Notification to the PAF that CPAB is requesting access to the significant component auditor's working papers.
2. If a memorandum of understanding or similar agreement (MOU) between CPAB and the local audit regulator is in effect, CPAB will utilize this mechanism where possible to access the significant component auditor's working papers.

3. In the absence of a MOU, or if a local audit regulator is not able to facilitate access, CPAB will request voluntary access to the significant component auditor's working papers through the PAF. The RI is required to have already permitted the significant component auditor to provide CPAB with such access prior to completion of the audit.<sup>1</sup>
4. If voluntary access to the significant component auditor's working papers is not provided in a timely manner (generally not to exceed five business days), CPAB will issue an **Access-Limitation Notice** to the PAF. The **Access-Limitation Notice** will state:
  - without identifying the reasons or basis that, in connection with an inspection of the RI's audit, voluntary access to the significant component auditor's working papers was requested by CPAB but has not been provided; and
  - that CPAB is formally requesting the significant component auditor enter into an **Access Agreement** with CPAB.
5. The PAF will deliver the **Access-Limitation Notice** to the relevant RI, its audit committee and the regulator or securities regulatory authority for the RI within five business days of receiving the notice<sup>2</sup>.
6. Within five business days of receiving the **Access-Limitation Notice**, the relevant RI will give notice in writing to the significant component auditor that the RI permits the significant component auditor to enter into a CPAB **Access Agreement**.<sup>3</sup>
7. CPAB will be prepared to negotiate and enter into an **Access Agreement** with the significant component auditor to facilitate access to its working papers. The terms of any such **Access Agreement** shall be settled as soon as reasonably practicable. For clarity, the **Access Agreement** will apply to CPAB's access to any working papers where the component audit firm is a significant component auditor for the audit of a RI.
8. CPAB intends to keep confidential the working papers of the significant component auditor to the same extent and with the same level of protection as it treats the confidential and privileged materials it accesses during its inspections of PAFs. Specific provisions may be added to the **Access Agreement** regarding privileged materials if needed.
9. CPAB may enter into an **Access Agreement** with a significant component auditor which includes a condition that access to the working papers is conditional upon the resolution of a specific legal prohibition. Such legal prohibition must be substantiated by a legal opinion satisfactory to CPAB, and the significant component auditor must have otherwise endeavoured in good faith to provide CPAB with access to its working papers.
10. If no **Access Agreement** is entered into within a reasonable timeframe (generally not to exceed 45 business days from the RIs communication to the significant component auditor) and the

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<sup>1</sup> See section 7.2 of NI 52-108

<sup>2</sup> See paragraph 7.3(1) of NI 52-108

<sup>3</sup> See paragraph 7.3(2) of NI 52-108

significant component auditor has not provided CPAB with access to its working papers, CPAB will issue a **No-Access Notice** to its PAFs.

11. A PAF must, within 15 days of receipt, provide the **No-Access Notice** to any of its RI audit clients which use the significant component auditor identified in the **No-Access Notice**, their audit committees and the regulator or securities regulatory authority for each such RI audit client.<sup>4</sup> Thereafter, NI 52-108 imposes restrictions on the use of the non-compliant significant component auditor (or, in respect of the subject RI audit client, any other public accounting firm as a significant component immediately thereafter).<sup>5</sup>

### **How PAFs can facilitate compliance with CPAB's process for accessing significant component auditor working papers pursuant to NI 52-108**

PAFs should take the following steps:

1. Establish processes to obtain sufficient appropriate information to identify significant component auditors as part of the acceptance and continuance of RI audit engagements.
2. Identify component auditors that meet the significance threshold defined in NI 52-108 for their RI audit engagements in a timely manner. PAFs should inform all significant component auditors so identified of the NI 52-108 requirements.
3. Include in the terms of the PAF's RI audit engagement letters that the RI permits any significant component auditor involved in the audit to provide CPAB with access to the significant component auditor's records relating to that audit work if that access is requested by CPAB. Each significant component auditor should then be informed in writing that this permission has been received from the RI.
4. Obtain confirmation that the significant component auditor will cooperate with the group auditor in providing access to working papers, to the extent permissible by local law, if a CPAB request for access is received.

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<sup>4</sup> See paragraph 7.4(1) of NI 52-108

<sup>5</sup> See paragraph 7.4(2) of NI 52-108 for more information