

SASKATCHEWAN POLICY STATEMENT 52-601

SELECTION OF PROFESSIONAL ACCOUNTANTS BY ISSUERS WITH FINANCIAL STATEMENT REPORTING REQUIREMENTS UNDER *THE SECURITIES ACT, 1988*

PART 1 DEFINITIONS

In this policy:

"Act" means *The Securities Act, 1988*;

"Issuer" means reporting issuers as defined in clause 2(1)(qq) of the Act, and issuers subject to a decision of the Commission, who are required to file continuous disclosure material;

"Regulations" means *The Securities Regulations*;

"The CICA Handbook" means the Canadian Institute of Chartered Accountants Handbook;

"G.A.A.S." means generally accepted auditing standards as set out in Section 5100 of the CICA Handbook; and

"GRO 51-902" means General Ruling/Order 51-902 Exemption from Certain Financial and Insider Trading Reporting Requirements.

PART 2 PURPOSE

The Director of the Commission has the power under clause 70(2)(i) of the Act to refuse the acceptance of financial statements for a prospectus offering, where the auditors providing the audit report for the Issuer's financial statements are not considered acceptable. Similar powers exist under subsection 87(1) of the Act for the purposes of continuous disclosure filings.

The purpose of this policy statement is to outline the Commission's requirements to Issuers selecting professional accountants for:

- (1) An audit engagement, for the purpose of providing an audit report on the Issuers' annual financial statements; and
- (2) A review engagement, for the purpose of providing a review engagement report on the Issuers' annual financial statements.

PART 3 APPLICATION

This policy statement is applicable to all Issuers.

PART 4 BACKGROUND

4.1 Regulatory Requirements for Audited Financial Statements

An Issuer contemplating a prospectus offering of securities, must provide financial statement disclosure in the prospectus. Section 79 of the Regulations details audited financial statement requirements for a prospectus offering. On receiving a final receipt for the prospectus, the Issuer becomes subject to a number of ongoing reporting requirements under the Act. Subsections 87(2) and 87(3) of the Act, require that issuers file annual audited financial statements with the Commission, accompanied by an auditors' report.

4.2 Regulatory Requirements for Auditors

Subsection 2(2) of the Regulations, adopts the principles, reports and standards recommended in the CICA Handbook. Professional accountants providing audit services to Issuers must follow the principles, reports, and standards recommended in the CICA Handbook.

Issuers must consider many factors when selecting an auditor. One key factor which must be considered is whether the potential auditor has sufficient qualifications to meet the general audit standard as outlined in Section 5100 of the CICA Handbook. The general standard is as follows:

"The examination should be performed and the report prepared by a person or persons having adequate technical training and proficiency in auditing, with due care and with an objective state of mind".

Similarly, when professional accountants are approached by Issuers, to provide audit services, they must give full consideration as to whether they have the qualifications necessary to meet the general audit standard, as well as all other audit standards.

(Issuers may wish to refer to CICA Handbook Section 5100 for more detail as to examination and reporting standards which an auditor must meet, in addition to the general standard noted above.)

In addition to the above, it is considered highly desirable that the professional accountants potentially providing audit services for Issuers, have public practice experience that has a reasonable component of audit services relating to public companies or commercial enterprises other than government or municipal organizations. Issuers are very much encouraged to make such inquiries of potential auditors.

4.3 Professional Accounting Organizations

The Commission recognizes that the majority of professional accountants are members of professional accounting organizations. These organizations set educational requirements for their members, which must be attained prior to the professional accountant being recognized as a full member of the organization. Some also set additional work experience requirements which an accountant must meet prior to being recognized as a full member. These organizations regulate the conduct of their members, and have powers to discipline when required.

The three professional accounting organizations in Saskatchewan are:

- (a) The Institute of Chartered Accountants of Saskatchewan;
- (b) The Certified General Accountants Association of Saskatchewan; and
- (c) The Society of Management Accountants of Saskatchewan.

Full members in these professional organizations are designated as C.A.s, C.G.A.s, and C.M.A.s respectively.

PART 5 COMMISSION REQUIREMENTS FOR AUDITORS

5.1 Auditor Membership in a Professional Accounting Organization Requirement

The Commission requires that a professional accountant performing audit services for an Issuer must:

- (a) Be a full member in good standing with one of these three professional accounting organizations outlined in paragraph 4.3 above, or their provincial equivalents elsewhere where the Issuer's head office is not located in Saskatchewan;
- (b) Have a public practice which meets all of the requirements of their respective professional accounting organizations, or their provincial equivalents elsewhere, where the accountant's public practice is not located in Saskatchewan;
- (c) Be subject to regular practice inspection reviews by their professional accounting organization;
- (d) Be able to meet the requirements of G.A.A.S.; and
- (e) Follow the principles, reports, and standards recommended in the CICA Handbook.

The decision on whether to select a chartered accountant, certified general accountant, or certified management accountant as an auditor rests solely with the Issuer.

5.2 Commission Staff Review

As part of their regulatory functions, Commission staff may detail review financial statements submitted by Issuers. Should the staff have questions on these financial statements from a disclosure standpoint, or otherwise, comments will be forwarded to both the Issuer and their auditors for follow up. Should the questions raised be of a significant and material nature, the staff of the Commission may accordingly have concerns with the manner in which the duties have been carried out by an appointed auditor. In these cases, the staff will require full explanations from the auditor of questions raised.

Where responses from the auditor do not resolve the concerns of the staff of the Commission, the matter will be referred to the accountants professional organization for review and whatever follow up is deemed necessary by such organization. In addition to whatever actions may be taken by the professional organization, the staff of the Commission may, as a result of their inquiries, determine that the financial statements are materially deficient and refuse to accept them. In these cases the auditor will be considered unacceptable for the purposes of the Act.

The Commission staff will refuse to accept Issuers' financial statements accompanied by audit reports provided by auditors that have been determined to be unacceptable.

PART 6 REQUIREMENTS FOR PROFESSIONAL ACCOUNTANTS PERFORMING A REVIEW ENGAGEMENT

The Commission approved GRO 51-902 on November 28, 1991. GRO 51-902 provides relief from the audit requirements for Issuers, provided they are not listed on a stock exchange, and have raised less than \$500,000 in total from all distributions. (Please refer to GRO 51-902 for full details of the requirements for use of this exemption).

In addition, some decisions of the Commission permit a review engagement rather than an audit be carried out by the Issuer.

For these Issuers, in lieu of an audit report, the Commission permits the annual financial statements to be accompanied by a Review Engagement Report as contemplated by Section 8200 of the CICA Handbook. Professional accountants must meet the standards applicable to review engagements as outlined in Section 8100 of the CICA Handbook.

Professional accountants providing such services must be full members in good standing with one of the three professional accounting organizations set out in section 4.3 of this policy statement. The decision

on whether to select a chartered accountant, certified general accountant, or certified management accountant to perform a review engagement rests solely with the Issuer.

The requirements, principles, and procedures of sections 5.1 and 5.2 of this policy statement apply equally to accountants' qualifications and ability to meet standards applicable to review engagements.

Adopted by the Commission October 21, 1993

"Marcel de la Gorgendière"
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Chairman