

**Ontario Securities Commission**

***OSC Staff Notice 51-718 - Key Considerations Relating to an Auditor's Involvement  
with Interim Financial Reports***



## Introduction

Ontario Securities Commission (OSC) staff recently reviewed a sample of issuers to assess their compliance with the provisions relating to an auditor's involvement with interim financial reports as set out in subsection 4.3(3) of National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102). While NI 51-102 does not require an issuer to engage its auditor to review its interim financial report, it does however require an issuer to disclose in an accompanying notice if an interim review has not been performed by its auditor. We found a significant level of non-compliance with this disclosure requirement and in these cases, issuers were requested to refile their interim financial statements with the required disclosure.

The purpose of this notice is to summarize the results of our review and to clarify the securities law requirements relating to an auditor's involvement with interim financial reports. As well, we have provided further guidance on the review requirements for an issuer's first interim financial report prepared following its transition to International Financial Reporting Standards (IFRS). Issuers and their advisors should take this notice into account when assessing the extent to which future disclosure meets the requirements of securities legislation and their investors' need for transparent disclosure. Investors need to be properly informed about an auditor's level of involvement with an issuer's interim financial report given that auditor involvement levels will continue to vary amongst issuers.

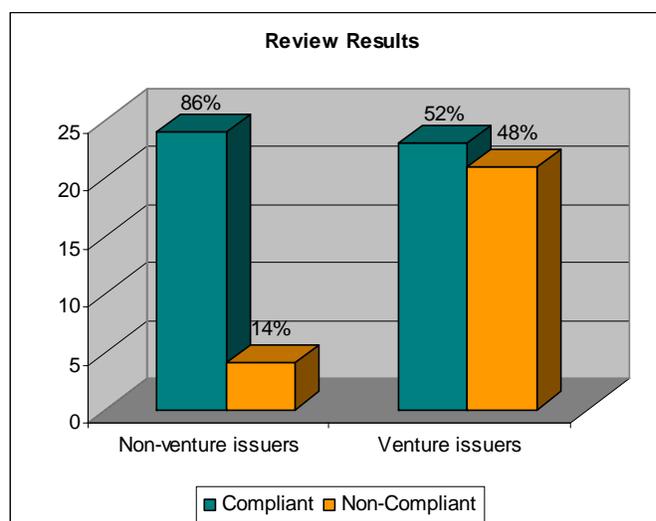
## Investor impact

When an issuer has not engaged its auditor to perform a review, it is critical that the issuer clearly disclose this fact in a notice accompanying its interim financial report. This disclosure is important as it alerts investors and other users of the financial statements that the issuer's auditor did not complete a review of the interim financial report. With this disclosure, users of financial statements are able to determine the amount of reliance they may place on an issuer's interim financial report when deciding to buy or sell investments throughout the year.

## Review results

We reviewed a sample of 72 issuers, comprised of 28 non-venture and 44 venture issuers, where it appeared that the interim financial statements had been reviewed by its auditor. We asked these issuers to confirm that their interim financial statements had been reviewed in accordance with securities legislation and Section 7050 *auditor review of interim financial statements* (Section 7050) of the Canadian Institute of Chartered Accountants Handbook (the Handbook).

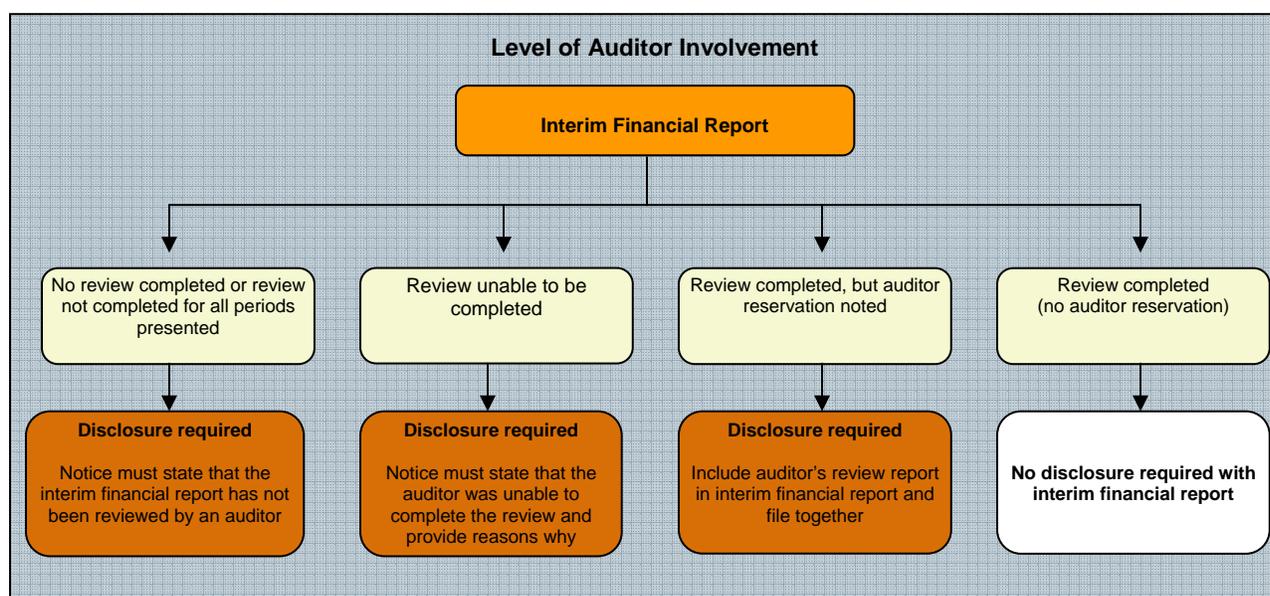
Overall, we found that 35% of the issuers reviewed, consisting of four non-venture and 21 venture issuers, did not comply with the disclosure requirements relating to an auditor's involvement



with interim financial statements. Specifically, 48% of venture issuers and 14% of non-venture issuers selected, confirmed that an auditor did not perform a review of its interim financial statements and yet these statements were not accompanied by a notice indicating that fact. Given the importance of this information to investors, we requested that these issuers refile their third quarter interim financial statements with the disclosure that its previously filed interim financial statements were not reviewed by its auditor. The reasons cited for non-compliance by issuers included a general lack of awareness about their disclosure obligations or confusion about what would constitute a review under securities legislation and Section 7050 of the Handbook. To improve the level of compliance going forward, we have highlighted below the relevant securities law requirements relating to an auditor's involvement with interim financial reports.

### Continuous disclosure obligations

An issuer is not required to engage its auditor to review its interim financial report for the purposes of fulfilling its continuous disclosure obligations under NI 51-102. As depicted in the chart below however, subsection 4.3(3) of NI 51-102 requires a reporting issuer to disclose if an auditor has not performed a review of the interim financial report, to disclose if an auditor was unable to complete a review and why, and to file a written report from the auditor if the auditor has performed a review and expressed a reservation in the auditor's interim review report.



As the white box in the chart shows, the only time that disclosure is not required is when an auditor has performed a review and has not expressed a reservation in the auditor's interim review report. The term "review" refers to a review engagement where the auditor reports to the issuer's audit committee on the results of a review of the issuer's interim financial report for all of the periods presented in the report and in accordance with Section 7050 of the Handbook. (If a reporting issuer's financial statements are audited in accordance with auditing standards other than Canadian generally accepted auditing standards, the corresponding review standards should be applied.) Where an auditor has been retained to perform limited review procedures or to review only certain components of an issuer's interim financial report, this would not constitute a "review" and we would require

disclosure of a notice indicating that the interim financial report has not been reviewed by the auditor. While NI 51-102 does not prescribe the format of this notice, issuers typically provide this disclosure on a separate page appearing immediately before the interim financial report.

## Review of the first IFRS interim financial report

Issuers should note that we did not make any changes to the requirements for the level of auditor involvement with issuers' interim financial reports as part of our IFRS-related rule amendments to NI 51-102. However, if an issuer engages its external auditor to review its first IFRS interim financial report, we remind issuers and their auditors that all financial statements and notes presented are subject to that review. Therefore, for the first IFRS interim financial report this review will have to include, in addition to the current and comparative period results, the opening IFRS statement of financial position and all IFRS 1 *First-time Adoption of International Financial Reporting Standards* reconciliations presented in the notes. To the extent a review of all components of the interim financial report is not completed, the interim financial report will need to be accompanied by a notice indicating that it has not been reviewed by the issuer's auditor. Issuers should consider the extra time that may be needed by its auditor to review the additional information in the first IFRS interim financial report when coordinating the timing of the review.

## Future action

We will continue to monitor issuers' compliance with the disclosure requirements relating to the auditor's involvement with interim financial reports as part of our overall continuous disclosure review program. We urge issuers and their audit committee members to consult with their auditor to confirm the scope of the auditor's review engagement, to establish whether the review of the interim financial report will be completed in accordance with Section 7050 of the Handbook and to determine whether a notice is required to be attached to its interim financial report. Auditors may also wish to consider how an issuer is communicating their level of involvement with the interim financial report given that an omission of disclosure implies that the report has been reviewed when a review engagement may not have been performed. We believe that investors need to be able to discern the level of auditor involvement in an issuer's interim financial report when making investment decisions, and as such, staff will continue to request re-filings of this report when an issuer has not met its disclosure obligations in this area.

## Questions

Questions may be referred to:

**Kelly Gorman**

Deputy Director, Corporate Finance

E-mail: [kgorman@osc.gov.on.ca](mailto:kgorman@osc.gov.on.ca)

Phone: 416-593-8251

**Shaifali Joshi**

Accountant, Corporate Finance

E-mail: [sjoshi@osc.gov.on.ca](mailto:sjoshi@osc.gov.on.ca)

Phone: 416-595-8904