

December 13/04  
Joy Keenan,  
Accounting and Assurance Standards Board  
CICA

Re: ED Reporting on Internal Control over Financial Reporting

The Issues and Policy Advisory Committee (“IPAC”) of Financial Executives International (Canada) (“FEI Canada”) is pleased to have the opportunity to provide comments to the Auditing and Assurance Standards Board on the Exposure Draft “Reporting on Internal Control over Financial Reporting.” The following remarks are made on behalf of the Committee and do not necessarily represent the views of FEI Canada or its members.

- We believe there should be a “made in Canada” solution/set of standards that balances the costs and benefits of compliance with the interests of the shareholders and other constituents. Canada should evaluate the U.S. implementation and developments, learn from the experience, and make changes as appropriate in the Canadian standards. There seems to be a sense of inevitability, and that we need to match exactly the U.S. implementation. This will do a dis-service to stockholders, as well as others, and would mean Canada missed an opportunity to achieve the benefits of the U.S. experience without the excessive costs and ramifications.
- Many Canadian public companies are listed in both Canada and the US which could lead to multiple jurisdictional and audit requirements. Auditors will have to determine the highest benchmark applicable in a given circumstance and audit accordingly. The application of multiple legislative and auditing standards to a given company is not a new circumstance and auditors will have to develop appropriate guidance and judgment.
- I trust the CICA auditing rules will not be finalized until we see the final rules for CEO/CFO certification and the requirements for attestation. Since we do not know whether there will in fact be a need for audits of internal control certification, or that the scope may differ from the U.S. requirements, there must be provision for revisiting the draft standard in light of the final rules.
- Would appreciate a better understanding of the requirements that would exist if the assumption that the same external audit firm conduct the audit of internal control over financial reporting as does the audit of the financial statements was removed. While we understand that the PCAOB has assumed that the same practitioner performs both the internal control reporting engagement and the financial statement audit, and we appreciate that these circumstances will be prevalent, guidance should not be predicated on a key decision made by management. Should provide for the circumstances that a Board of Directors may choose to award the assignments to different practitioners and address how the auditor of the financial statements would, if they chose, rely on the work of the auditor of internal controls.
- Note that the PCAOB has responded to many “FAQ”s”, (3 separate postings, the most recent in late November) the responses providing very important guidance and understanding. The adoption of the PCAOB standard without incorporating the additional guidance may have advantages, but it would be valuable to understand how the CICA plans to provide additional commentary and how closely this commentary will align with the PCAOB material. If additional guidance issued by the CICA to reflect Canadian circumstances differs from the PCAOB material confusion could result.

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- Guidance to auditors with respect to how they evaluate the impact of remediation by issuers of control deficiencies and weaknesses prior to the reporting period end would be helpful as there appear to be different views on this topic held by various auditing firms.
- Concern that the standards being issued by the big 4/6 accounting firms in the US in response to the PCAOB rules are driving what is a management process. Examples include determining testing sample sizes, remediation time frames, timing of management testing, etc.

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