



## CANADIAN BANKERS ASSOCIATION

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March 1, 2007

Ms. Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090  
USA

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C.  
20006-2803  
USA

Dear Sir/Madam:

**Re: SEC Subject File S7-24-06**  
**Re: PCAOB Rulemaking Docket Matter No. 021**

The Canadian Bankers Association ("CBA") welcomes the opportunity to provide comments on:

- i) the paper released by the SEC on December 20, 2006 entitled, "Management's Report on Internal Control over Financial Reporting"; and
- ii) the proposed auditing standard issued by the PCAOB on December 19, 2006 entitled, "An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements and Related Other Proposals".

The CBA is a professional industry association that provides information, advocacy, education and operational support services to its members, the 54 chartered banks of Canada, which include domestic banks, foreign banks and branches of foreign banks. The CBA's mission is to be a leading contributor in the development of public policy on issues that affect the financial services sector. A number of CBA members are foreign private issuers and are subject to the requirements of SOX 404, as well as equivalent draft requirements of the Canadian Securities Administrators ("CSA").

We have chosen to provide our comments on the above-noted documents together. Overall, we are pleased that both the SEC and the PCAOB have concluded that a single methodology that meets the needs of every company is not practical. The emphasis on a principles-based approach, specific enough to provide direction but not so prescriptive as to preclude the use of professional judgment in its application, is consistent with suggestions provided by the CBA to the SEC in response to previous proposals issued during 2006.

For the provisions of the *Sarbanes Oxley Act* to be sustainable, management and their auditors need to work together to ensure that the most effective and efficient audit is carried out with appropriate reliance being placed on the work performed by others. The CBA is pleased that the SEC has provided management with useful, practical guidance to assist with increasing the efficiency of the certification process.

We have noted however that inconsistencies between the SEC and PCAOB proposals exist in some areas, some of which are discussed below. These inconsistencies could lead to differences in the approaches taken by management and the auditors, which in turn could hinder the auditors' ability to rely on the work of others. The CBA believes it is important that the new guidance for management and auditors be aligned and consistent in order to gain the necessary efficiencies. Both the SEC and PCAOB proposals will assist management in increasing efficiency of the certification process and reducing costs.

### **Suggestions for Consideration**

The following are our comments on specific provisions within the proposals:

#### **1. Applicability of Policy Revisions**

The adoption of changes suggested by the SEC and PCAOB will, without question, result in improved efficiency and effectiveness of internal control evaluations by both management and auditors. As a result, financial reporting stakeholders, including shareholders, auditors and management, will be anxious for early adoption of such changes. We are confident the SEC and PCAOB will do their best to issue this guidance as soon as possible.

Many filers do not have December 31 year-ends, including many of Canada's chartered banks. Nevertheless, there will still be time for management and auditors to incorporate changes in their strategy following the release of the guidance. We request management and auditors be given the option of complying with the new guidance for all fiscal periods ending after its release date, including any remaining fiscal periods that may be ending in 2007.

#### **2. Rotational Testing**

The CBA concurs with both the SEC's and PCAOB's emphasis on the use of a risk-based approach to determine the nature, extent and timing of testing of controls. Many useful factors are cited by the SEC and PCAOB for consideration in any properly conducted risk assessment. Of particular note is the PCAOB's support for the use of information obtained from prior years as one such factor. We concur with the PCAOB's view in this regard.

However, the proposed standard allows the auditor the flexibility to reduce testing in subsequent years but does not permit rotational testing. In our view, a true risk-based approach should allow for rotational testing and we believe this form of testing is ideally suited to medium and low risk situations.

#### **3. IT Application Controls**

The PCAOB's view on allowing a benchmarking or baselining strategy for automated application controls in subsequent years' audits is based on the auditor verifying and obtaining evidence that the control has not changed since the baseline was established. In our view, any efficiency benefits gained from allowing benchmarking are diminished by the burden of proof required to confirm each individual control has not changed. In principle, the testing of the change management process as part of the general information technology controls should be considered sufficient for reliance on the controls over changes made to applications within its scope.

#### **4. Walkthroughs**

The CBA is encouraged by the PCAOB enhancing the opportunities for auditors to rely on the work of others. For walkthroughs, the PCAOB has introduced the direct assistance of others as permissible but unfortunately fell short of permitting full reliance without some element of re-performance or direct participation by the auditors. We believe, under certain conditions and subject to the auditor's professional judgment, the work of others for a walkthrough can be fully relied upon. Such conditions would include a common understanding of the objectives of the walkthrough, agreement with the scope to be covered, agreement as to the means by which the walkthrough will be documented as well as competence and objectivity in the individual performing the walkthrough.

#### **Conclusion**

We ask that you consider these comments in the final guidance. The CBA and its members look forward to reviewing the principles-based guidance that will ultimately emerge from the results of these releases and commend the SEC and the PCAOB for their positive response to stakeholders' previous feedback.

Please do not hesitate to contact us if you wish to discuss these comments further.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Auerbach".