From João Costa,
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São Paulo, Brasil

**Subject : File number S7-24-06**

Dear Sirs

We would like to congratulate the Commission for the proposed interpretive guidance for management's evaluation of internal control over financial reporting, and the proposed rule amendments. We hope our comments below can be useful for the improvement of current regulations.

**1. Elimination of the auditor's opinion on management's assessment**
We are particularly in favor of the elimination of the auditor's opinion on management's assessment of ICFR which we understand is now object of a rule amendment, and therefore will prevail even for those companies that decide not to follow the guidance.

**2. Synergy Auditor /Company**
Concerning the question " how the proposed guidance and the proposed new auditing standard will affect the expenditure of effort, and division of labor between the companies and their auditors " for which you are requesting comments, we would like to make the following remarks.

We believe there is now a great opportunity to step out from a situation that often puts in opposite sides the work of the auditors and the work of the company. Today, the auditors do their assessment and the company does its assessment, separately. We believe that in an ideal situation the company and the auditors should perform the assessment together, in a sequence as suggested bellow:

a) Firstly, the auditor writes the ICFR risks that he/she can see for each element of the financial reporting, based on his/her knowledge of the company, previous audits, changes evaluation, regulator's findings, internal auditor's findings, etc.

b) Then, in the same document, the company would state the controls it has put in place to face that risk pointed out by the auditor, describing the control, its type (company-level, process level, monitoring, etc) and the way its effectiveness is verified.

Regarding a) above, it must be considered that the new standards issued by the AICPA (SAS 104 –111 to be applied in non issuers that I suppose the PCAOB eventually could endorse to apply to issuers) require the auditor to enhance the application of the risk model, in order to improve the quality and effectiveness of audits.
As stated by the AICPA's Standards Board in the Executive Summary of those SAS, these new standards require among other things:

- "More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them."
- "More rigorous assessment of the risk of material misstatement of the financial statements based on that understanding."
- "Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks."

Considering that the auditor is obliged to prepare the Risk Map to follow the new standards, it seems that a tremendous synergy and a lot of company's effort and cost would be saved if the company could just respond to the Map, inserting in the map the information required by the auditor.
It is important to be the Auditor the one to write the risks in the Map (not the company), in order to have an independent appreciation of the risks, a common language, and a common concept of materiality. In addition,

a Risk Map built in this way would allow the risks to be precisely routed to the specific financial reporting element.
This operating mode in which the auditor works together with the company to assess the risks and to evaluate the design of the controls would not exclude the control's tests by the auditor and the administration separately over the items they each understand relevant or necessary.

**3. Evaluation and report of the deficiencies**

The evaluation of the ICFR made by the auditor in conjunction with the company, as described above, should include the evaluation and classification of the deficiencies that were identified by them in such process.

In this case, the auditor, and not the company, should report the deficiency - material weakness- describing it in the Auditor's opinion on the ICFR.

That would be similar to the Financial Statements Auditing, in which the audit firm states its reason for qualifying its opinion on the Financial Statements.

The statement of the deficiencies by the auditor is more credible to investors than the statement by the company and it would relieve the company the efforts to classify a deficiency based on the auditing literature, which in many cases demand extensive subjective judgment that an auditor is in better position to make.

Another reason is that the Auditor is perspicacious and free of conflicts to remark the deficiencies that really matter, like the ones towards management override of the controls, organizational deficiencies, critical segregation of functions, poor governance practices, lack of skills by the finance personnel, unsupportive TI personnel and others that Management could be biased to report, regardless of the size of the company.

**4.Foreign issuers**

Foreign issuers are subject to local laws and regulations that are often different from those prevailing in the U.S.

If these differences were properly informed to investors, eventually there would be no need to impose to foreign investors some of the Sarbanes-Oxley Act dispositions.

Information about the local regulations on Internal Controls, Risk Management and Compliance, are important items to be considered, alongside the items already stated in the 20 F reports, and the reconciliation of the financial statements to USGAAP.

Very truly yours

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