

May 6, 2010

Mr. Greg Shields, CA
Director, Auditing and Assurance Standards
The Canadian Institute of Chartered Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
ed.assurancestds@cica.ca

Re: Response to the AASB exposure draft Reporting on Controls at a Service Organization of March 2010

Dear Greg,

I am pleased to submit to you the comments of the Information Technology Advisory Committee of the CICA on the above-noted exposure draft.

Yours truly,

A handwritten signature in black ink that reads "Ray Henrickson". The signature is written in a cursive style with a large, prominent initial "R".

Ray Henrickson, CA•CISA, CA•IT,
Chair of the CICA Information Technology Advisory Committee,

Encl.

**ITAC RESPONSE TO THE AASB EXPOSURE DRAFT ON
REPORTING ON CONTROLS AT A SERVICE ORGANIZATION
MARCH 2010**

1. Paragraphs 10 and 11 provide guidance for the service auditor in situations where management of the service organization refuses to provide a written assertion. Paragraphs 9.c.ii and A17 require management to have a reasonable basis for this assertion. However, there appears to be no guidance for the service auditor with respect to their responsibilities for assessing the basis upon which management has based their assertions. Does the auditor have responsibility for ensuring that management has a reasonable basis for making their assertion? What are the auditor's responsibilities if management appears to NOT have a reasonable basis for making their assertion?

We recommend that paragraphs 10 and 11 be expanded, or additional paragraphs added, to clarify the auditor's responsibility for assessing the basis upon which management has made their assertion, and the service auditor's responsibilities in situations where management may not have a reasonable basis for their assertion.

2. Paragraph A54 offers additional guidance on the basis for management's assertion. We recommend that paragraphs A17 and A54 be included as a reference within the expanded paragraphs 10 and 11 or new paragraphs that clarify the auditor's responsibilities.
3. The inclusion of management's acknowledgement of their responsibility for having a reasonable basis for their assertion in paragraph 9.c.ii appears to be limited to the engagement letter. This seems to limit this requirement to being a basis for client acceptance. While management should acknowledge their responsibility in the engagement letter, the auditor would only be in a position to assess that basis during the execution of the engagement, which would suggest the auditor's only responsibility would be one of client continuance (or client acceptance where management refuses to acknowledge their responsibility).

We do not believe this is appropriate and suggest additional guidance on auditor responsibilities as outlined in items 1 and 2 above.

4. Paragraph 41 under "Other Information" describes the service auditor's responsibility when the "other information" is inconsistent or an apparent misstatement of fact and refers to paragraphs A59 – A61 with additional guidance.

We recommend that this guidance be NOT limited to only "Other Information" provided by management (as is implied with the existing wording), but rather be applicable for all statements made by management made in the report, including their description of the system, the description of internal controls, and management's assertion. This would provide greater clarity, for example, if the auditor's findings of the design and/or operational effectiveness of controls was different than management's assertion as to the design or effectiveness of controls.

5. In addition, guidance in paragraph A61 may be relevant (perhaps with some minor rewording) for situations where management does not have a reasonable basis for their

assertion. As such, this guidance or a revised version of it may make sense to be referred to in paragraphs noted in item #1 and 2 above.

6. Paragraph A22 description of minimum criteria includes:

“... management’s description of the service organization’s system would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.”

We understand the practical implications, but are concerned that “provide reasonable assurance” does not meet the requirements for “suitable criteria”. In an assurance engagement the service auditor provides an opinion that provides “reasonable assurance” that the criteria have been satisfied. To have the auditor’s opinion based on criteria that includes “reasonable assurance” creates a circular argument (e.g. in our opinion, there is reasonable assurance that there is reasonable assurance).

Further, Section 5025 defines certain attributes of suitable criteria including such things as reliability and neutrality. We are concerned that including “reasonable assurance” within the criteria is neither reliable nor neutral. A conclusion on whether there is reasonable assurance that the risks would not prevent the objectives from being achieved would be dependent on the skills, experience and personal opinions of the auditor and would, therefore, not be neutral or reliable criteria.

We recommend this issue be further debated, reviewed and discussed to ensure that criteria are established for these types of engagements that meet the requirements for suitable criteria.

7. We understand the need and desire to limit the scope of this proposed standard to internal controls performed by/at a service organization that may be relevant to a user organization’s system of internal controls over financial reporting. However, this may create potential issues and confusion among practitioners including:

a. What are the practitioner’s requirements with respect to independence? While independence may be a provincial jurisdiction, the CICA has published guidance on independence (e.g. Guidance on Canadian Independence Rules) and has the Independence Task Force of the Public Trust Committee to review the independence provisions included in the Rules of Professional Conduct and determine whether or not any changes are needed. It is not clear whether engagements conducted under this standard should meet the same independence requirements as:

1. opinions on financial statements – since their scope is limited to controls related to financial reporting;
2. opinions on internal controls over financial reporting (Section 5925) – again since the scope of these engagements is limited to internal controls that may be relevant to financial reporting; or
3. other assurance opinions under the general assurance standard 5025

Guidance in this area is needed as it can have an impact on client engagement and acceptance responsibilities and the ability of service auditors to satisfy their professional responsibilities. We are concerned that without guidance in this

matter, different service auditors may apply different principles/standards leading to confusion in the marketplace and risk of service auditors not meeting the required professional standards.

- b. The intent of the standard is to provide direction to user organizations and their auditors on the design and operation of internal controls that may be relevant to financial reporting. We are concerned that there is not sufficient definition with respect to whether it is permissible for management to include other business objectives, and, additionally, whether it is permissible for auditors to provide their opinion relative to the internal controls related to those other business objectives (e.g. such as objectives related to privacy and the protection of personally identifiable information, etc.) as part of the service auditor's report, and in addition to the controls and objectives that are directly related to financial reporting. Inclusion of those other objectives would seem to be not permitted under the revised standard. However, we are concerned that the practical reality is that these other objectives are required to meet real business needs, and requiring the issuance of dual reports (one under this CSAE for some objectives and another under 5025 for some other objectives) may be impractical for the business needs.

We recommend that additional guidance be included to clarify what degree of reporting on "other" objectives and controls is permissible under this standard.

8. Paragraph 37 and paragraphs A7 – A9 provide the requirement and guidance related to situations involving use of sub-service organizations. We are concerned that this guidance (paragraph A8, in particular) would effectively limit the "inclusive" method to those situations where the service organization and sub-service organization are related. Since there is no contractual duty between the service auditor and the sub-service organization in situations where the sub-service organization is independent of the service organization, it is very unlikely the sub-service organization would provide any management assertion/representation to the service auditors. We would expect that legal council for the sub-service organization would advise not providing any such representations. Further, since there is typically no contractual relationship between the sub-service organization and the customers of the service organization the sub-service organization may be reluctant to provide such reports to their customers' customers. Again, we would expect the sub-service organization's legal council to have reasonable grounds for recommending such reports not be provided since there is no contractual responsibility to the service organizations' customers.

In addition, the guidance seems to be silent on situations where the sub-service organization may have engaged a service auditor to provide their own service auditor's report (referred to for clarity as a "sub-service auditors report") that would be available to the service organization. It would seem reasonable that since any such sub-service auditors report would have been prepared under similar standards (i.e. this standard, or SAS70 or ISAE3402 or something equivalent) that there should be provision within Canadian standards for the service auditor to obtain and rely on those reports, including as necessary procedures that the service auditor need perform to provide a basis for relying on the report.

We recommend that guidance in this area be re-visited to include consideration of service auditor reliance on sub-service auditor reports as a basis for using the inclusive method of reporting.



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SENT BY EMAIL

May 7, 2010

Mr. Greg Shields, CA
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277 Wellington Street West
Toronto, ON.
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Dear Mr. Shields:

Re: Exposure Draft of Reporting on Controls at a Service Organization

Introduction

In November, 2008, we were pleased to review and comment on the IAASB's proposed International Standard on Assurance Engagements (ISAE) 3402. In our letter to the IAASB (please see attached copy), we were pleased to note that the standard, as proposed in the exposure draft, could be readily adopted by certain Canadian capital market entities to meet our requirement that they undergo an annual independent review of internal controls over their critical systems and processes (independent systems review). We pointed out that while the internal controls of interest were very similar (if not identical) to those applicable to financial reporting, our interest in internal control was from an operations perspective.

We concluded by asking that the IAASB not adopt any recommendations that would prevent the standard from being applied to other situations. Needless to say, we were disappointed to see that the provision to apply the standard, with changes as necessary, to engagements not related to financial reporting had been eliminated.

Our Concerns

We have reviewed the AASB exposure draft, Reporting on Controls at a Service Organization, and note the decision by the AASB not to adopt the new ISAE 3402. We also note that the changes in the exposure draft are limited to changes to bring it into closer alignment with the new U.S. standard and changes needed to make it consistent with other Canadian standards.

We note that the use of the proposed service auditor's report is restricted to "assessing the risks of material misstatements of user entities' financial statements." This restriction would prevent the proposed report from being utilized for the independent systems review requirements of certain Canadian capital market entities. We are concerned about this restriction and therefore we recommend that the proposed standard be amended to permit a report to be prepared without this restriction. We also ask the AASB clarify that the standard may be utilized for reporting on controls at a service organization other than those that are relevant to internal control over financial reporting.

Our need for such a standard to fill the gap that currently exists in Canada has increased since our November 2008 letter. For example, in June, 2009, the Canadian Securities Administrators (CSA) selected two firms as Information Processors, one for exchange-traded securities and one for corporate debt securities; under National Instrument 21-101, these firms are required to undergo an annual independent systems review. As well, in February 2010, the Ontario government proclaimed into force amendments to the *Securities Act* (Ontario) that will prohibit clearing agencies from carrying on business in Ontario unless they are recognized by the Commission. We expect that any recognized clearing agencies will also be required to undergo an annual independent systems review.

While we do have options such as the use of non-public accounting firms with the appropriate expertise to conduct these engagements, our strong preference would be to have these performed under a recognized Canadian standard.

Conclusion

In conclusion, we believe that there is a current regulatory need and a market for the Canadian profession to report on internal controls over operations, and, therefore, a need for a standard. We ask that the AASB consider permitting the adaptation of the proposed standard for such reporting. If you have any questions, please feel free to contact myself or John Kearns directly at (416) 593-8278.

Yours truly,

Cameron McInnis

Cameron McInnis
Chief Accountant

c.c.: John Kearns, OSC
Antoinette Leung, OSC

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5 May 2010

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Via email to ed.assurancestds@cica.ca

Dear Mr. Shields:

Re: Exposure Draft – Reporting on Controls at a Service Organisation

The Exposure Draft Forum of the Institute of Chartered Accountants of British Columbia has reviewed the above exposure draft and is pleased to provide the following comments to the Auditing and Assurance Standards Board for its consideration.

The Forum is comprised of volunteer members from public practice, industry, and regulatory authorities who meet periodically to discuss and comment on draft guidance. The views expressed in this letter are solely those of members of the Forum and do not represent the views of the Institute, its Council, or its staff.

General Comments

Although most members of the Forum do not have extensive experience with this type of engagement, they do agree with the proposed changes. On the whole, they agree with the decision to adopt the new American standards, as it is their understanding that engagements of this type are either entirely Canadian or of a US cross-border nature.

However, one member would have appreciated a more detailed explanation in the exposure draft of the Board's decision for not adopting the international standards. Furthermore, this member notes that the proposed standard was developed by substituting Canadian references for references to US standards without acknowledging the differences that might exist between the Canadian and the US frameworks. The member feels that the proposed standards could be more clearly tied in with the new Canadian Auditing Standards framework and suggests that the Board consider expanding the scope discussion to reference CICA Handbook section 5025 as the applicable framework standard. In particular, the areas of planning, engagement agreements, acceptance/continuance considerations, and general requirements for due care and objective state of mind could be highlighted.



We appreciate the opportunity to provide input to the Auditing and Assurance Standards Board and hope you find our comments useful.

Yours truly,
Exposure Draft Forum

[Via email]

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Staff Liaison to Exposure Draft Forum
Advisory Services Department
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