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**BULLETIN #0348-C**  
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# MFDA Bulletin

## Compliance

**For Distribution to Members' Audit Firms and other Relevant Parties within your Firm**

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### New Process for Year-End Audit Engagements

#### Background

The MFDA has been asked by a number of engagement partners of MFDA Member audit firms to implement a process for the year-end audit engagements that would clarify and clearly document in writing the roles and responsibilities of each party. This process does not change the scope or nature of the engagement, and there are no additional reporting requirements associated with it. This process will commence for all fiscal year ends ending **December 31, 2008** and later.

#### Requirements

MFDA Rule 3.5.1(b) requires each Member to file annually with the MFDA, through its auditor, audited financial information of the Member within 90 days of the Member's fiscal year end. The audited financial information must be reported in the Form 1 - Financial Questionnaire and Report ("FQR") format and filed using the MFDA web-based application, the Electronic Filing System ("EFS"). In accordance with Rule 3.5.4 and 3.6.8, the audit engagement is to be conducted in accordance with Canadian generally accepted auditing standards ("GAAS") and the reports are to be signed by an engagement partner authorized to do so in accordance with applicable legislation in the jurisdiction in which the principal office of the Member is located, respectively. In addition, Rule 3.6 outlines specific audit engagement requirements to be performed by the external auditor of a MFDA Member, in addition to the GAAS requirements.

#### New Process

In order to clarify and support the special examination requirements of an external auditor of a Member firm, and the auditor's corresponding reporting relationship to the MFDA and MFDA Investor Protection Corporation ("MFDA IPC"), standard letters will be exchanged between the MFDA and the external auditor for each year end engagement. Attached to this Bulletin are the standard letters which include the; (1) Instruction Letter; (2) Acknowledgement Letter and; (3) Confirmation Letter.

### ***Instruction Letter***

The Instruction Letter will be sent to the external auditor by the MFDA prior to the Member's fiscal year end. The purpose of this letter is to specifically outline the requirements for the external auditor for the year end engagement which include the following:

- Two duly signed copies of the MFDA FQR are to be filed on behalf of the Member by the auditor. For the purposes of filing Form 1 with the MFDA, the regulatory filing must consist of all forms as produced by the web-based regulatory filing system, EFS and the audited filing must be received within 90 days of the Member's fiscal year end {Rule 3.5.1(b)};
- For Member firms with EDP service providers (e.g. Univeris, Winfund, RPM and Dataphile), auditors are reminded that the review of the accounting system should encompass the EDP environment. File documentary evidence of the review would include the most recent audit opinion on the control environment of the EDP service provider {Rule 3.6.4};
- Auditors are required to report any material breaches of MFDA By-laws, Rules and Policies pertaining to the calculation of the Member's financial position, handling and custody of securities, insurance and maintenance of adequate records that are observed during the regular conduct of the audit. In addition, a copy of the Management Letter reporting on any internal control weaknesses of the Member firm should be filed within 90 days of the Member's year-end {Rule 3.6.6}; and
- The auditor acknowledges that the firm's working papers relating to the MFDA Member engagement are to be made available for review by the MFDA and the MFDA IPC subsequent to the filing date of the FQR. {MFDA Rule 3.6.5}.

### ***Acknowledgement Letter***

The Acknowledgement Letter will be sent by the external auditor to both the MFDA and MFDA IPC prior to completing the Member's fiscal year end audit. The purpose of this letter is to provide assurances from the external audit firm that it has been engaged by the Member to perform its year end audit, the firm received the MFDA's Instruction Letter, and the audit firm acknowledges the special terms of the engagement. Specifically, upon receipt of the Instruction Letter, the Member's auditor is required to sign the Acknowledgement Letter and return a copy to both the MFDA and MFDA IPC which includes the following:

- The audit engagement team has read MFDA Rule 3.6 and understand its requirements;
- The auditor acknowledges that the MFDA and the MFDA IPC each reserve the right to review the auditor's audit working papers in relation to the Member subsequent to the filing date of the FQR;

- A summary of the nature and scope of the audit engagement (i.e. the Part I financial statements which are the responsibility and representations of the Member's management);
- The purpose of the Auditors' Reports addressed to the MFDA and MFDA IPC; and
- An acknowledgement that the MFDA has agreed to write to the audit firm prior to signoff and completion date of the engagement, to advise of any significant matters that the MFDA is aware relating to the Member.

### ***Confirmation Letter***

The Confirmation Letter will be sent to the external auditor by the MFDA prior to the filing due date of the audited financial reports. The purpose of this letter is to specifically confirm the following details to the audit firm:

- Any financial compliance regulatory matters that may be relevant to the audit opinion that have not otherwise been reported in the MFDA's last field examination report;
- Any issued or outstanding MFDA notices of hearing with respect to the Member; and
- Other than early warning financial triggers as already reported by the Member's FQR filings on EFS, any other reason to designate the Member into discretionary early warning or impose business restrictions.

Additional information relating to the filing process of the annual audited FQR is contained in [Bulletin #0300-C](#), *Audited Financial Questionnaire and Report – Filing Process*, dated February 4, 2008.

(doc # 149770)

## **“Instruction Letter”**

Date

<<Auditor Salutation>> <<Auditor First Name>> <<Auditor Last Name>>  
<<Auditor Title>>  
<<Auditor Address>>  
<<Auditor City>>, <<Auditor Province>>  
<<Auditor Postal Code>>

Dear **AUDIT PARTNER NAME**:

**Re: MEMBER FIRM NAME**

In reference to MFDA Rule 3.5.1(b) and the audit of **MEMBER FIRM** (the “Member”) as at **DATE**, **AUDIT FIRM** is required to file audited financial statements using Form 1 of the MFDA Financial Questionnaire and Report (“FQR”). The filing shall consist of two duly signed copies of Form 1 of the MFDA FQR filed on behalf of the Member. For purposes of filing Form 1 with the MFDA, the regulatory filing must consist of all forms as produced by the web-based regulatory filing system, Electronic Filing System (“EFS”). The audited filing must be received **no later than DATE**.

If the Member requires an extension to the filing date, we would expect that the Member would file a written request with the MFDA accompanied by a letter from you, prior to the due date of the filing. Any such request must provide details of the circumstances which necessitates an extension. A late filing fee will be charged to the Member regardless of whether an extension is granted. This should also include the most current Risk Adjusted Capital (RAC) and Early Warning Excess (EWE) of the Member.

In respect to the web-based system, each Member firm has been assigned User IDs and two levels of permissions required to access and use the application via the Internet. A User ID has been assigned to the Member firm providing view/add/delete/edit permissions including the action of “submitting” the data as evidence of their approval (*referred to as filing permission*) so that the data is then made accessible to the MFDA to review.

A workflow process has been implemented in EFS effective December 18, 2006. Once the Member firm has submitted the filing, it will then be passed to the Audit Partner to review and submit the filing to the MFDA as evidence that they have verified that the electronic version is the same as the audited Form 1 filed by the auditor to the MFDA and the MFDA Investor Protection Corporation (“IPC”). Each Audit Partner has been provided with his/her specific User ID and Password for his/her respective MFDA audit jurisdiction Member firm client. This will enable the audit partner to review (with no add/delete/edit permissions) the history of regulatory filings and authenticate the current year’s electronic Form 1 filing.

The MFDA will be responsible to manage changes to User ID’s and Passwords.

Please refer to [www.mfda.ca/efs/help/helpMFDA.pdf](http://www.mfda.ca/efs/help/helpMFDA.pdf) to access the Annual FQR Reference Sheet for further guidance on EFS and completing the filing.

In the event of any changes in Member firm audit engagements, the auditor is required to advise the MFDA in writing so that appropriate EFS access permission changes are made. They should be addressed by letter directly from the Engagement Auditor to the attention of MFDA Membership Services as a written record of the request for change.

The two paper copies of Form 1 must be filed with the MFDA and should be addressed to:

Membership Services  
Mutual Fund Dealers Association of Canada  
121 King Street West  
Suite 1000  
Toronto, ON M5H 3T9

Pursuant to MFDA Rule 3.6.4, for Member firms with proprietary systems and/or under contractual arrangements with primary EDP service providers (e.g. Univeris, Winfund, RPM and Dataphile), auditors are reminded that the review of the accounting system should encompass the EDP environment. File documentary evidence of the review would include the most recent audit opinion on the control environment of the EDP service provider.

As prescribed in MFDA Rule 3.6.6, auditors are required to report any material breaches of MFDA By-laws, Rules and Policies pertaining to the calculation of the Member's financial position, handling and custody of securities, insurance and maintenance of adequate records that are observed during the regular conduct of the audit. In addition, a copy of the Management Letter reporting on any internal control weaknesses of the Member firm should be filed within 90 days of the Member's year-end.

Furthermore, **AUDIT FIRM** has acknowledged that it will make available for review by the MFDA and IPC the working papers relating to **MEMBER FIRM**, pursuant to Rule 3.6.5 subsequent to the filing date of the FQR. Therefore, we are requesting at this time that MFDA staff be provided access to review the working papers in accordance to the Rule.

Questions pertaining to the preparation of the Financial Questionnaire or interpretation of the By-laws, Rules and Policies should be addressed to **NAME**, Manager, Financial Compliance, and may be reached at (416) **NUMBER**. To assist you further, we are prepared to meet with your staff to answer any audit questions they may have prior to the audit.

Please acknowledge receipt of this letter to us and IPC **no later than DATE**.

Yours sincerely,

<<Director\_First Name>><<Director\_Last\_Name>>  
<<Director\_Position>>

Attach.

c: **Member, Title, Member Firm**  
**President**, MFDA Investor Protection Corporation  
**Manager**, Financial Compliance, Mutual Fund Dealers Association of Canada

(DOCS # 111915)

## “Acknowledgement Letter”

### DATE

Mr./Ms. «First\_Name»« Last\_Name»  
«Director\_Position»  
Mutual Fund Dealers Association of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9

Mr./Ms. «First\_Name»«Last\_Name»  
«President\_Position»  
MFDA Investor Protection Corporation  
C/O Mutual Fund Dealers Association  
of Canada  
121 King Street West, Suite 1000  
Toronto, ON M5H 3T9

Dear Mr./Ms. «Director\_Last\_Name» and Mr./Ms. «President\_Last\_Name »:

### Re: Member Firm Name (the “Member”)

**AUDIT FIRM** (the “Auditor”) has been engaged by the above Member to perform an audit of the Member's annual Financial Questionnaire and Report (Form 1) as at **Date**. In connection with such audit, we acknowledge receipt of your instruction letter dated **Letter Date** with respect to filing the auditor's reports contained within Form 1 on behalf of the Member for the period ending **Year End Date**. The filing shall consist of two signed copies of Form 1 filed no later than **Due Date**.

The audit engagement team have read the Mutual Fund Dealers Association of Canada's ("MFDA") Rule 3.6 and understand the requirements contained within.

The Auditor acknowledges that the MFDA and the MFDA Investor Protection Corporation ("IPC") each reserve the right to review the Auditor's audit working papers in relation to the Member subsequent to the filing date of Form 1 in order to discharge their regulatory responsibilities. However, the Auditor's working papers are prepared for the Auditor's internal purposes, solely in order to provide support for its audit opinions. Audit working papers document procedures performed, information obtained and conclusions reached by the Auditor. We make no representation as to the sufficiency or appropriateness of our working papers for your purposes. Items of possible interest to the MFDA or IPC may not have been addressed. Any audit working papers obtained by you from the Auditor should not supplant other inquiries and procedures that should be undertaken by you for the purpose of monitoring and regulating the affairs of the Member. In addition, any notations, comments, and individual conclusions appearing on any of the audit working papers do not stand alone, and should not be read as an opinion on any individual amounts, accounts, balances, or transactions.

Our audit of the Member's Part I Financial Statements of Form 1 as at **Year End Date**, will be conducted in accordance with Canadian generally accepted auditing standards. The objective of our audit is to form an opinion as to whether Part I Financial Statements which are the responsibility and representations of management of the Member, present fairly, in all material respects, the Member's financial position and the results of its operations in accordance with the basis of accounting disclosed in the notes to Form 1. Furthermore, we form an opinion on whether the statements of assets and of liabilities and shareholder/partner capital, risk adjusted

capital, early warning excess and early warning tests, income, changes in capital and retained earnings (corporations) or undivided profits (partnerships) and changes in subordinated loans are presented fairly in all material respects. The additional information set out in Part II - Schedules 1 to 4 will be subjected to the procedures to be applied in the audit of the Financial Statements in Part I, and we form an opinion as to whether the information contained in Part II is presented fairly in all material respects in relation to the Part I Financial Statements taken as a whole.

Under Canadian generally accepted auditing standards, the Auditor has the responsibility to plan and perform the audit to obtain reasonable, rather than absolute, assurance that the Financial Statements are free of material misstatements, whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud and illegal acts. Accordingly, there is some risk that a material misstatement of the Financial Statements would remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the Member's Financial Statements or Form 1. Our audit will include, examining on a test basis, evidence supporting amount and disclosures made in Form 1. Our audit will also include assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentations.

The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and as to the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. In addition, our audit will not address future events or the possibility that material misstatements may occur in the future. Our use of professional judgement and our assessment of materiality for the purpose of our work means that matters may have existed that would have been assessed differently by others, including the MFDA and IPC.

Our audit of the Member's Financial Statements as of **Year End Date** will be made for the purpose stated above and therefore, items not addressed in Rule 3.6 which may be of possible interest to the MFDA or IPC may not be specifically addressed. Accordingly, our audit should not be taken to supplant the inquiries and procedures that the MFDA or IPC should undertake for the purpose of satisfying themselves as to the Member's financial condition, control environment, compliance with the MFDA's By-laws, Rules and Policies or for any other purpose.

The Member's Financial Statements are the responsibility of management of the Member. It is also the responsibility of the Member's management to adopt sound accounting policies to maintain an adequate and effective accounting system and to devise an internal control structure that will, among other things, provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Management of the Member is also responsible for identifying and ensuring that the Member complies with the laws and rules applicable to its activities.

All of the Auditor's reports provided to you in connection with the Member's Form 1 are

provided for the information and use of the MFDA and IPC to assist them in their respective assessments of the Member's financial compliance with the MFDA's By-laws, Rules, and Policies. The Auditor's reports are not intended to be and should not be used by the MFDA or IPC for any other purpose; any other use you may choose to make of our reports is entirely at your own risk and we shall have no responsibility whatsoever in relation to any such use.

To assist us with our audit, the MFDA has agreed to write us prior to our sign off and completion date to advise us as to whether there are (i) any financial compliance regulatory matters of which the MFDA is aware that may be relevant to our audit opinions, (ii) any issued and outstanding MFDA notices of hearing with respect to the Member or (iii) any reason to designate the Member into discretionary early warning. You have required that we file the Member's Financial Statements by **Due Date**. We would therefore require your advice of any matters that you wish to draw to our attention prior to that date. If there are no such matters, please confirm as such in writing. Please address your responses to «**Auditor Salutation**» «**Auditor First Name**» «**Auditor Last Name**». If we have not heard from you by «**Confirmation Date**» (*30 days prior to filing deadline*), we will assume that there are no matters that you wish to draw to our attention.

This letter is issued in connection with audit reports to be contained in Form 1 of the Member for the period ending **Year End Date**. Our understanding and acknowledgement referred to above does not extend to future reports, if any, that might be rendered in connection with future engagements.

Yours very truly,

«**Auditor First Name**» «**Auditor Last Name**»  
«**Auditor Title**»  
«**Audit Firm**»

c. «**CFO First Name**» «**CFO Last Name**», «**CFO Position**», «**Member Firm Name**»  
«**Manager First Name**» «**Manager Last Name**», Financial Compliance Manager,  
Mutual Fund Dealers Association of Canada

(DOCS # 111917)

## “Confirmation Letter”

Date

<<Auditor Salutation>> <<Auditor First Name>> <<Auditor Last Name>>  
<<Auditor Title>>  
<<Auditor Address>>  
<<Auditor City>>, <<Auditor Province>>  
<<Auditor Postal Code>>

Dear <<Auditor Salutation>> <<Auditor Last Name>>:

**Re: MEMBER FIRM NAME**

Pursuant to your acknowledgement letter for the audit of **MEMBER FIRM**'s Financial Questionnaire and Report (“FQR”) as at **Audit Date**, this letter confirms the following as of this date:

- 1) There are no financial compliance regulatory matters that may be relevant to your audit opinions that have not otherwise been reported in our last field examination report dated **Date**.
- 2) There are no issued and outstanding MFDA notices of hearing with respect to the Member.
- 3) Other than early warning financial triggers as already reported by the member's FQR filings on Electronic Filing System (“EFS”), there is no other reason to designate the Member into discretionary early warning or impose business restrictions.

For information on Notice of Hearings or Settlement Agreements, please conduct a search on the MFDA website for the Member firm at [www.mfda.ca](http://www.mfda.ca) and assess accrual for monetary penalties with the Member and/or its lawyers.

If you have any questions, please contact <<Manager, First Name>> <<Manager, Last Name>>, Manager, Financial Compliance, at <<Manager Phone>>.

Yours sincerely,

Manager, Financial Compliance

c: **Member, Title, Member Firm**  
**President, MFDA Investor Protection Corporation**