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June 30, 2005

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RE: Proposed Multilateral Instrument 52-111, *Reporting on Internal Control Over Financial Reporting*

We have read the above-mentioned document. Overall, we support the objective of the initiative. However, our key concern is that the costs to our clients will be prohibitive. We have an opportunity in Canada to minimize the costs of implementing this instrument by learning from the U.S. experience and we would encourage taking the time necessary to review the information from their experiences and make any adjustments that are required.

In response to the specific questions in the request for comment, we have the following comments for your consideration:

1. **Do you agree that the Proposed Internal Control Instrument should apply to all reporting issuers other than investment funds and venture issuers? If not, which issuers do you believe should be subject to the Proposed Internal Control Instrument?**

We agree with Proposed Internal Control Instrument's application to reporting issuers in Canada. However, we do not believe that companies listed on the equivalent of the Venture exchange in other countries, other than SEC issuers, should be subject to this instrument. For example, a Canadian reporting issuer listed on the AIM exchange would meet the criteria of "a marketplace outside of Canada or the U.S." and would be subject to this instrument.

5. Is the guidance set out in the Proposed Internal Control Policy with respect to the scope of the evaluation of internal control over financial reporting in relation to each of the circumstances set out above adequate and appropriate?

We support that the scope of the evaluation should be left to the judgement of management. We do have a concern that the proposed CICA Handbook – Assurance Section, *An Audit of Internal Control over Financial Reporting Performance in Conjunction with an Audit of Financial Statements*, in the section on "Identifying significant accounts" (paragraph .060 - .064) will not allow the same level of professional judgement for auditors. Without any changes, this will result in different scoping criteria for management's assessment and the auditor's assessment. The scoping criteria for both engagements need to be the same. Therefore, a change would be required to the audit standard to allow the same level of professional judgement for auditors.

We agree that the guidance with respect to the scope of the evaluation of internal control over financial reporting in relation to each of the interests set out in section 5 is adequate and appropriate.

7. Are there any specific aspects of the identified control frameworks on which additional guidance is required to assist in their application by issuers that have limited formal structures for internal control over financial reporting?

The Frameworks listed are suitable guides to effective internal controls. However, none of the Frameworks were developed to specifically assess the effectiveness of internal controls over financial reporting. The guidance provided to date regarding applying the frameworks to assess internal controls over financial reporting is mainly provided by the Public Company Accounting Oversight Board (PCAOB) in guiding the auditor in assessing management's assessment. The application of these Frameworks into effective internal controls over financial reporting is very specific to the circumstances of each organization, but additional guidance on the securities commissions' expectations would be beneficial to the reporting issuer.

Given some of the unique organizational structures for some Canadian reporting issuers, guidance to assist management in moving from a "limited formal structure" to effective internal controls over financial reporting would be beneficial and would assist in minimizing some of the costs required by such companies to comply with the instrument. We understand that COSO[1] is working on implementation guidance for small business issuers and additional guidance to assist Canadian reporting issuers would be useful. We also believe that any implementation guidance would need to be supported in the auditing standard.

1 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Report: Internal Control – An Integrated Framework, 1992

13. Are the exemptions from the Proposed Internal Control Instrument appropriate?

Yes, the exemptions from the Proposed Instrument are appropriate.

14. Are there any other classes of issuers that should be exempt from the Proposed Internal Control Instrument?

As was noted in our response to question 1, we do not believe that companies listed on the equivalent of the Venture exchange in other countries (other than SEC issuers who will be subject to the related rule in the U.S. and therefore exempt from this instrument) should be subject to this instrument.

15. Is the phased-in implementation of the Proposed Internal Control Instrument appropriate?

We support phased-in implementation given the expected demands on client staff and audit staff.

16. Does the phased-in implementation adequately address the concerns regarding the cost and limited availability of appropriate expertise within reporting issuers and among external advisors and auditors? If not, how can these concerns be addressed?

For question 15 and 16, sufficient and appropriate lead time is important for reporting issuers to manage external and internal costs of complying with the new regulations. Given that we want to take advantage of the US experience in setting the Canadian requirements and also keeping in mind that the Canadian deadlines should not be ahead of the timelines in the United States, we believe that a fairly long effective date is necessary. However, it would be advantageous to finalize the rule as soon as possible because reporting issuers will then focus on meeting the requirements instead of playing the waiting game.

17. Are there any costs or benefits associated with the Proposed Internal Control Materials that have not been identified in the Internal Control CBA? If so, what are they?

A key benefit of the new regulations is the increased awareness and skills of company personnel to assess risks and implement controls to mitigate those risks. The current regulation deals with just financial reporting risks however, this is fundamental in executing enterprise risk management. Setting goals and objectives and achieving those goals and objectives is what defines the "core business" and enterprise risk management is an effective tool in meeting the goals of shareholders. Although difficult to quantify, we believe that there could be a lower cost of borrowing and a reduced litigation risk for larger public companies.

18. Do you believe that the benefits (both quantifiable and unquantifiable) justify the costs of compliance (both quantifiable and unquantifiable) for:
(a) issuers with a market capitalization of less than $75 million?
(b) issuers with a market capitalization of $75 million or more but less than $250 million?
(c) issuers with a market capitalization of $250 million or more but less than $500 million?
(d) issuers with a market capitalization of greater than $500 million?
(e) all issuers?

Why?

The key to this analysis is the minimization of cost. Anecdotal evidence from the U.S. experience suggests that the costs are too high. Based on the input from the roundtable sessions with the SEC and PCAOB, it would appear that the approach could be changed in future years for accelerated filers.

It would suggest that costs could be lower for small business issuers and foreign private issuers if this new approach is used for these entities.

We believe that in the first year, costs will outweigh the benefits. However, over a longer period of time (3-5 years), it is expected that there will be significant benefits to both the companies and investors although we believe that the costs should be monitored in relation to the benefits achieved.

21. Is it necessary or appropriate to require a venture issuer to refile its annual certificates for a financial year when it voluntarily files an AIF for that financial year after it has filed its annual financial statements, annual MD&A and annual certificates for that financial year?

We believe that is it appropriate to require a venture issuer to refile its annual certificates. The certificates should be filed with the latest filing documents.

22. Since the AIF may be voluntarily filed several months after the issuer's annual financial statements and annual MD&A, there may be a significant gap between the time that the annual financial statements and annual MD&A are filed and the time that the annual certificates are refiled. Is this timing gap problematic?

We believe that the timing gap may be problematic, but it is something that the companies will need to address. The certificates should cover the period of time up to the last of the filing documents.

Thank you for your consideration of the above-noted comments.

Yours truly,

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