

(The contents of this e-mail were initially sent to Carla-Marie Hait and Sheryl Thomson of the BCSC on June 8, 2007)

I think you heard the “ reality “ of today from those attending the June 8 BCSC round-table discussion. What you are looking for in your proposals is to ask more of those who are already overworked and do not see the need for any more bureaucratic interference. And I agree with them.

What you are asking for is already happening ; management and the auditor review and adjust the systems in order to provide reliable information for the F/S. It probably worked better in the old days when the auditor was charged with reviewing the systems and highlighting weaknesses in a management letter. The shareholders in the US have generally ignored the auditor’s report on internal control even though it has cost industry millions of dollars. A great waste of effort and money.

You should read the recent article by Kenneth Wilcox – “ The punishing burden of Sarbanes “ ( National Post ) Some of the statements made therein – fees are 5 times what they were 3 years ago; nobody appears to want to exercise judgment; nowhere near enough accountants; PCAOB discourages the auditors from either offering advice or exercising judgment.

Let me set out some questions I formulated while sitting through the panel :

- 1) If a reportable deficiency creates doubt that the F/S were prepared in accordance with GAAP, how can an auditor give a clean opinion? A clean opinion says enough. If the system is inadequate let the auditor use professional judgment in arriving at that conclusion. Your whole position appears to be born in a distrust of management and auditors.
- 2) You mention “reasonable person” in your definition of “reportable deficiency”. I am more able to comprehend “reasonable investors” and I do not think they are too worried about systems and they certainly do not want a CEO to waste a lot of time on them. Hire qualified accountants and let them do their jobs.
- 3) I would prefer to have review of internal control as part of the audit than as one of the responsibilities of the CEO
- 4) The audit committee is much more involved now than a few years ago. And, one thing you should not forget; if you understand the company’s business and are close to operations, you know what the F/S will reflect and if they do not, look for problems.

There were more but you get the picture; we need less interference from the regulators rather than more. Let the current professionals in the field do their job! I believe you are exceeding your mandate and what you may establish now will not survive a turndown in the markets, because it is irrelevant.

I know you may not like to hear the above but I truly believe the CSA is going in the wrong direction. And this comes from someone who has taught accounting and auditing, who helped develop Systems Evaluation Approach to audit, has been an audit partner and then a CFO for many companies and finally, is now chair of a number of audit committees. I am not the ultimate authority but have a great deal of hands-on experience. And, I am not here to fight ; I want to help.

Regards,

Bob Gayton