



December 2006

Dear client,

The Canadian Institute of Chartered Accountants and the Ontario Institute of Chartered Accountants has now mandated significant changes in auditing methodology and approach. This new approach is effective for the audit of all companies in Canada, both large and small. The effective implementation date is for all year ends commencing on or after January 1, 2006.

What has changed?

The new standards significantly change and expand the work I perform on an audit. It requires me to gain a greater understanding of your business which will also put me in a much better position to provide advice on areas such as corporate governance, internal control design and risk management strategies.

How do these changes help my business?

The response to these changes from regulators and the investment community has been very positive. The new rules will improve the effectiveness of audits, which also serves to enhance the credibility and value that can be placed on the auditor's report.

When I perform an audit, I am now required to first assess the risks of material misstatement (including material fraud) and then design appropriate audit procedures to address the risks identified. This means I will:

- **Obtain a more comprehensive understanding of your entity and its environment, including internal control.** Auditors must now assess the design and implementation of internal controls, even when a primarily substantive approach (limited or no testing of control effectiveness) is anticipated.
- **Better understand management's role (and those charged with governance) in the overall internal control system and how such controls could affect the audit process.** This would include an understanding of management's attitude and philosophy toward control, information systems relevant to financial reporting, the process for hiring key people, the organization's structure, roles and responsibilities, anti fraud controls and incentive-based compensation plans.

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- **Perform more thorough risk assessment procedures.** This includes obtaining information not only from people directly involved in financial reporting, but also from those with key operational roles.
- **Identify significant risks that require specific auditor attention.** After identifying significant risks, I will evaluate the design of controls that address such risks.
- **Tell you my results.** I will report my audit findings and significant deficiencies identified in internal control to management and the audit committee or its equivalent.

The old standards allowed me always to assume management's good faith, unless I found evidence to the contrary. The new standards require me to adopt an attitude of professional scepticism in my questioning and procedures. Professional scepticism requires a questioning attitude or state of mind in planning and performing the audit. The need for professional skepticism came about because it was recognized that management is often in the best position to perpetrate fraud and, for this reason, all audit evidence needs to be carefully examined and corroborated.

How do these changes affect my audits?

The impact of these changes will inevitably result in the need to perform additional audit procedures and to prepare additional audit documentation. This additional time could be minimized if some of the information outlined above (such as systems documentation and the risk assessment) could be documented under your direction and then reviewed by me. Where this is not practicable or possible, I will prepare the required documentation and then review it with you for completeness and accuracy.

The additional information I will now obtain about your company will put me in a much stronger position to recommend improvements to your internal control procedures and risk management strategies.

I would be pleased to answer any questions you may have about these changes.

Yours truly,



David Burkes, CA, Licensed Public Accountant

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