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## **Enron and Beyond — Key Issues for Our Profession**

The collapse of US energy giant Enron, and the many questions raised, has put our profession in the spotlight as never before.

Recently CGA-Canada's President convened a special Working Group to address these questions and make suggestions. The group included Association leaders, accounting academics and CGAs experienced in public practice. It has brought forward a policy direction which has been affirmed by CGA-Canada's Board of Directors.

One important issue relates to accounting and auditing standards. In 1999, CGA-Canada argued that instead of moving closer to US standards, Canada should adopt international standards — those of the International Accounting Standards Board (IASB). Today there are strong reasons why this approach continues to make sense.

IASB standards are less based on the narrow interpretation of "rules" and more on sound professional judgment. Narrow adherence to "rules" has been identified as a contributing factor in the Enron case and other recent auditing controversies.

There is a steady move to adopt IASB standards everywhere but in North America. The European Union will require IASB compliance for all listed companies by 2005. Further global adoption of IASB standards would provide enormous credibility and comparability, which is much needed in the Enron aftermath.

Recently, Sir David Tweedie, Chairman of the IASB, was in Canada. He observed that Enron has provided a good opportunity to look at the issue of international accounting standards. IASB's overall objective, he noted, is to create one set of high quality global standards so all transactions are handled the same way all over the world. Sir Tweedie argued that Canada has a crucial leadership role to play in helping to boost the IASB's influence in the US, because of its close contact with both US and European accounting bodies. We made this point in 1999 and continue to agree today.

Another central issue has been auditor conflict of interest. CGA-Canada supports the view that the practice of auditing and the practice of consulting should be separated for publicly traded companies. It is different for private companies, however, where the risk is substantially lower since the owner is usually part of the management team, and lenders and investors are knowledgeable business persons.

There is legal precedent for this public/private separation. Recently, the American Institute of Certified Public Accountants (AICPA) also endorsed this distinction in recognition of the differing circumstances.

Recent Enron coverage has also focused on professional regulation and the weaknesses of the so-called US peer review process. Here in Canada, practice reviews are performed by independent professionals who are paid, employed or under contract to the self-regulating professional body involved. This process is objective, independent and it works.

There has also been recent discussion about whether Canada needs a national securities regulator. CGA-Canada does not oppose the idea of such a body. But we want to know how it might impact our members who currently audit listed companies. As well, if such a national body were to emerge, strong measures should be in place to ensure its objectivity and independence. We welcome the opportunity to participate in these discussions.

The world is an increasingly complex place. The speed of business is breathtaking. New and complex financial instruments are continuously being developed. New professionals are entering the field with new roles to play.

In all of this, there is tremendous room for continuous improvement — in professional accountability, not only for accountants and auditors, but also for other financial service providers. And there is clearly room to improve the practice of good corporate governance, in order to promote skill, objectivity, and ultimately, investor and public confidence.

Last week CGA-Canada's President spent several days meeting with senior officials in Ottawa, including the Governor of the Bank of Canada, the Auditor General, the Secretary of State for International Financial Institutions, the Chair of the Commons Standing Committee on Finance, the Parliamentary Secretary to the Finance Minister, and staff within the Finance Minister's office. This gave us an excellent opportunity to share our perspective with these key decision makers.

Not all the answers are on the table and we would caution against a rush to judgment. But we do believe our profession must learn from the Enron experience. We must be part of the public debate. We must take the necessary steps to prevent such an unfortunate event from happening here in Canada.

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