

# CGA-Canada Calls for Independence and Transparency of Auditor Oversight Process

THE CERTIFIED GENERAL  
ACCOUNTANTS ASSOCIATION OF  
CANADA (CGA-CANADA) ADVOCATES  
REFORM OF THE CANADIAN PUBLIC  
ACCOUNTABILITY BOARD

## **What is the issue?**

Because the Canadian Public Accountability Board (CPAB) is not independent, not at arm's length from auditors, and not transparent in its actions, investors cannot be assured that it is able to fulfill the mandate set out for it by Canada's securities regulators.

## **Why is auditor oversight necessary?**

In the aftermath of massive corporate failures in North America and Europe, Canadian regulators and the Canadian Institute of Chartered Accountants (CICA) quickly established CPAB to bolster public confidence in financial reporting.

The goal of promoting high-quality, independent auditing is laudable, and CGA-Canada welcomes the initiative. But the current structure of CPAB requires significant changes for it to be truly transparent and independent.

## **What are the public policy implications?**

The public interest demands efficient capital markets supported by sound financial information. Investors base decisions on this information, and its accuracy and reliability are important characteristics. Furthermore, reliable financial information has significant public policy implications through its ability to influence the economy.

In the United States, an independent auditor oversight process was established by the Public Company Auditing Oversight Board (PCAOB), which was created by the Sarbanes-Oxley Act of 2002. For Canada's capital markets to remain competitive, CGA-Canada believes this country's oversight framework needs to be as robust as that of the U.S.

## **What do others say?**

In its report on the Enron affair, the Standing Senate Committee on Banking, Trade and Commerce agreed with CGA-Canada's position on CPAB. The Committee maintained that CPAB should "revisit its composition with a view to greater inclusiveness." In addition, the Committee recognized that there should be a legislative basis for CPAB.

In a July 19, 2002, editorial the *Globe and Mail* newspaper noted that the creation of CPAB was a step in the right direction but may not be enough because of a series of shortcomings, including CPAB's inability to change existing auditing rules. To redress these shortcomings, the *Globe and Mail* suggested that "a coordinated series of legal and regulatory initiatives must be launched to entrench independence in the system, [and] improve transparency and accountability."

## **How can the issue be resolved?**

CGA-Canada believes that a number of steps must be taken to render CPAB transparent, inclusive, and independent. Legislative oversight would also ensure its activities are fully scrutinized. Issues to be addressed in this process include:

- o Adopting an open-meeting policy. Open meetings will ensure the actions of CPAB are subject to the scrutiny of investors. CGA-Canada recognizes that some issues will need to be discussed in camera – as is the case for other governing organizations.

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- o In Canada, the three accounting designations – CGA, CMA and CA – have the legislated authority to prepare audited financial statements.<sup>1</sup> CPAB must recognize that fact and ensure each body participates equally in CPAB decision-making. Alternatively, CGA-Canada would support any action taken by CPAB to remove the accounting profession as a whole from its governance activities.
- o Expanding CPAB's source of funding. Sources of funding can be perceived as an impediment to an organization's independence; in addition, adequate funding is required for an organization to fulfill its mandate. At this time, CPAB is solely funded by audit firms and CGA-Canada believes all groups that would benefit from high-quality, reliable financial information should fund the oversight process. This includes provincial and federal governments, listed entities, and participating audit firms.

Addressing these issues and reforming CPAB, in conjunction with federal legislative authority, will enable CPAB to meet its mandate and serve the public interest.

CGA-Canada wishes to work with CPAB, securities regulators, governments, and other interested stakeholders to implement these reforms.

For further information, contact CGA-Canada Government and Regulatory Affairs at 613 789-7771, ext. 222.

## **About CGA-Canada**

CGA is the fastest-growing accounting designation in the country. With a focus on integrity and ethics, and one of the highest education requirements in the profession, CGAs have become the country's accounting and business leaders, providing strategic counsel, financial leadership, and overall direction to all sectors of the Canadian economy.

The Certified General Accountants Association of Canada represents 62,000 CGAs and students in Canada, Bermuda, the Caribbean, Hong Kong, and China. The association sets standards, develops and maintains education programs, publishes professional materials, advocates on public policy issues, and represents CGAs nationally and internationally.



<sup>1</sup> Regulatory frameworks vary from province to province. Currently, nine provincial governments and the government of Canada have recognized that Certified General Accountants are qualified and competent to prepare audited financial statements.