

Q & A on Enron for use by PICAs/Ordre

1. How is the Canadian CA profession responding to the Enron situation?

The Enron bankruptcy is an extremely serious situation that has caused enormous hardship for thousands of people who have lost their jobs and their life savings. When situations like this occur, everyone involved in our capital markets and financial reporting systems must do their utmost to get to the bottom of what occurred, learn from it and do whatever is required to prevent it from happening again.

The CICA cannot comment on any specifics relating to the Enron situation because it has no other information about it other than what has been publicly reported.

However, the CICA and the Provincial Institutes/Ordre are closely monitoring developments in the United States relating to the Enron bankruptcy, including potential changes to the regulation of Certified Public Accountants (CPAs) in the U.S. We will try to anticipate any ramifications for this country, consult with stakeholders and develop whatever response may be required.

2. Could an Enron happen in Canada?

Business failures and bankruptcies can happen anywhere, anytime. At this point, we do not know enough about the Enron situation to analyze exactly what occurred and why. That being said, it's incumbent upon everyone with an interest in getting to the bottom of this situation – government, regulators, the accounting profession, firms, and other parties – to find out what happened and take whatever steps are necessary to prevent such an unfortunate event from happening again.

3. Does the Canadian system – including the self-regulation of Chartered Accountants – need to be strengthened or changed?

The Canadian CA profession takes its self-regulatory responsibilities very seriously. Professional self-regulation and protection of the public interest are the hallmarks of the CA profession, as they are for medicine and law, and the self-regulatory system has worked well for many, many years.

Ethics and integrity are the core values of the CA profession, and we are constantly striving to improve our standards in accounting and assurance. Our rigorous CA education and training program, including our practical experience and examination requirements, are designed to ensure that all CAs are equipped to meet the highest professional standards, with a duty not only to the client but also to the public interest.

A key part of professional self-regulation is ensuring that improvement and modernization of the system are undertaken on an ongoing basis. That is why the Canadian CA profession is constantly working with firms and regulators in Canada – and with accounting bodies and others around the world – to strengthen the system.

For example, Ontario and other provinces now have processes in place to initiate professional conduct investigations and hearings prior to the completion of court cases or actions by regulators. As well, Ontario, Alberta and New Brunswick allow their respective Institutes of Chartered Accountants to discipline firms, and other provinces are considering similar changes.

As well, the CICA has taken a leadership role in ensuring that financial statements reflect the true health of companies and in making financial information more understandable e.g.; in the past year we have issued new standards on business combinations, stock options and a new standard on fraud that provides more guidance to auditors.

If – as a result of the Enron situation or as a result of our ongoing efforts to improve the system – it is determined that changes are needed in Canada, the CICA and the Provincial Institutes/Ordre are confident that we would be able to sit down with all the stakeholders and make those changes happen, in order to protect the public interest.

4. What are the major differences between the CA and CPA professions?

Several important differences exist between the U.S. and Canadian professions in the areas of standard-setting and self-regulation.

The people who set and oversee accounting standards in this country are drawn from government, industry and academe and include financial advisors, regulators, sole practitioners and members of CA firms of all sizes. The makeup of our national standard-setting bodies illustrates this: Only 2 of 9 members of the Accounting Standards Board are from the big firms; 5 of 12 members of the Assurance Standards Board are from the big firms; and 1 of 22 members of the Accounting Standards Oversight Council are drawn from the Big 5. Members include Toronto Stock Exchange President and CEO Barbara Stymiest, Superintendent of Financial Institutions Nick Le Pan, and respected academics such as University of Waterloo accounting professor Efrim Boritz.

As well, unlike the peer review system in the U.S., the Canadian CA system of practice inspection is established, controlled and carried out by the Provincial Institutes/Ordre. The Provincial Institutes/Ordre oversee the hiring and training of full- and part-time inspectors as well as the appointment of members to a practice inspection review committee. All CAs who practice public accounting are

subject to practice inspection. While a firm may be the subject of an inspection the reviews are conducted on an office-by-office basis. The inspection looks at the individual's or firm's work product (e.g. the audit report) as well as its quality control procedures.

5. What are the implications for the Canadian CA profession of proposed changes to the regulation of the CPA profession in the U.S.?

It is too early to tell whether changes to the self-regulation of CPAs proposed by the Securities and Exchange Commission (SEC) in response to the Enron situation will have any ramifications for the CA profession in Canada. We are monitoring the consultations now underway in the U.S. regarding the SEC proposal to create a new oversight body.

6. Can the public have confidence in Canada's financial reporting system and audited financial statements?

Investors should continue to have confidence in our country's financial reporting system, just as they should continue to educate themselves to make informed financial decisions.

As outlined above, the Canadian CA profession is constantly striving to modernize and improve standard-setting, financial reporting and its system of self-regulation in order to protect the public interest. Recent examples of this include developing a new standard relating to detecting and deterring fraud, initiatives to make financial statements clearer and changes that permit firms – not just individual members – to be disciplined.

We understand that situations such as the Enron bankruptcy can shake confidence in financial reporting systems around the world. That is why we will monitor developments relating to the Enron situation and continue to work with others to put in place any changes required to modernize and improve our financial reporting system.