

New Independent Public Oversight for Auditors of Public Companies Announced by Federal and Provincial Regulators and Canada's Chartered Accountants

More rigorous inspection, new quality control requirements for CA firms

TORONTO, July 17, 2002 — To strengthen confidence in capital markets and the credibility of financial statements, federal and provincial regulators and Canada's chartered accountants today announced the creation of a new system to oversee the auditors of public companies in Canada.

The Canadian Securities Administrators (CSA), the Office of the Superintendent of Financial Institutions (OSFI), and Canada's chartered accountants today released details about the new system, which includes:

- more rigorous inspection of auditors of public companies;
- tougher auditor independence rules; and
- new quality control requirements for firms auditing public companies.

The new requirements will apply to auditors of publicly listed companies and will be administered and enforced by the new Canadian Public Accountability Board (CPAB) (*Conseil canadien sur la reddition de comptes — CCRC*). The creation of the CPAB will ensure the independence and transparency of the new process.

Major firms conducting public company audits will now be reviewed annually and subject to a more comprehensive examination of their quality control policies and procedures. Failure to remedy significant deficiencies identified by the CPAB will result in sanctions and will also be communicated to the appropriate regulators, who may take action.

Canada's major CA firms have voluntarily agreed to implement the new requirements in October 2002, which will coincide with the establishment of the CPAB. The CPAB requirements will apply to all other firms auditing public companies within three years.

"This new oversight body is not controlled by the CA profession. The new system is based on independent, public oversight, tougher practice inspection and more rigorous quality control mechanisms," said Ontario Securities Commission Chair David Brown, who will chair the group mandated to appoint the CPAB members. "We intend to expose for public comment new rules that will require auditors of Canadian publicly listed companies to be members in good standing of the CPAB."

The CPAB will be made up of 11 individuals, including seven from outside the CA profession, and is expected to hold its first meeting in mid-October. The CPAB requirements will ensure that Canadian CA firms in the course of auditing public companies will:

- undergo more frequent and rigorous inspections, which will be conducted by a new national inspection body and will include public, annual reporting of results;
- accelerate the adoption of more stringent standards on auditor independence, including limits on the types of consulting services that can be provided to audit clients;
- rotate the lead partner on an audit on a regular basis;
- have a second partner review every audit; and
- have resources and procedures in place to ensure consultation takes place on difficult, sensitive or contentious issues.

“The fact that the CA firms that audit large companies have already agreed to implement these changes means we can proceed without delay to get the improvements in place,” said CICA President and CEO David Smith, adding that the changes will become part of the profession’s mandatory rules once they go through the various consultation and approval processes.

It is estimated that the new quality control system will cost at least \$6 million annually, which is double the amount currently spent on practice inspection by the CA profession through provincial CA Institutes/Ordre.

Attached Media Backgrounders:

- Canadian Public Accountability Board
- Requirements for CA Firms that Audit Public Companies
- Sanctions for Auditors

For more information, or to arrange an interview, contact:

Eric Pelletier

Ontario Securities Commission
(416) 595-8913

Margaret Percy,

Office of the Superintendent of Financial Institutions
Office: (613) 993-0577; Cell: (613) 297-8412

Alex Wooley

Canadian Institute of Chartered Accountants
(416) 204-3450