

September 22, 2003

John Stevenson, Secretary
Ontario Securities Commission
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Toronto, Ontario M5H 3S8

Denise Brosseau, Secretary
Commission des valeurs mobilières du Québec
Stock Exchange Tower – 800 Victoria Square
P. O. Box 246, 22nd Floor
Montreal, Québec H4Z 1G3

Dear Madame/Sir:

Re: Proposed Multilateral Instrument 52-108 Auditor Oversight

We have followed with interest, the development and introduction of the Canadian Public Accountability Board (CPAB) and have anticipated its introduction in this proposed Multilateral Instrument. While we note the intention to exclude direct regulation of Alberta auditors, we surmise that the stated intention of enforcing CPAB rules on Alberta issuers will result in essentially the same effect for our members.

Despite our inquiries and presentations by our national president to the Senate Standing Committee on Banking, Trade and Commerce (February 2003), we have not been consulted or included in these developments and our verbal requests for consultation have not resulted in any meaningful discussions. As one of the key guardians of the public trust in our area of professional accounting in Alberta, we were surprised to have been excluded from this initiative. Our record has been exemplary and in its Notice #28, the Alberta Securities Commission confirmed our role in regulating the work of CGA auditors of Alberta public companies. CGAs have the same rights and opportunities to perform public company audits as do CAs in the province of Alberta. As requested, we will respond to your specific questions, but the structure and approach taken within CPAB are so badly flawed that we are compelled to initially outline our over-riding concerns. Those concerns have three basic components:

1. Our view that CPAB is a flawed model of public policy
2. Inconsistencies between this model and the comparable model in the United States, which we conclude it is intended to emulate, and
3. The aforementioned exclusion of 35,000 professional accountants from a regulatory model dealing with their profession.

We will deal with each in turn:

A flawed model of Public Policy

Much has been made of the participation of non-accountants in CPAB governance, allegedly leading to a structure controlled from outside of the profession, in the public interest. The independence of this body is not what it appears to be for the following reasons:

- a) Bylaw 1 of CPAB creates a previously unannounced group of all Provincial Institutes of Chartered Accountants, without whom no changes in governance can be accomplished.
- b) The Board of CPAB will include employees of the Chartered Accountants organizations. While a majority of the Board members will not be CAs, those with the accounting and auditing experience all are, and most of that group are CA employees.
- c) We understand that the funding of the operation is through one source (audit firms) while the PCAOB in the US has multiple sources.
- d) Those accountants involved with the organization are there based on their auditing connections. Nowhere do we see representation of professional accountants who can provide the perspectives of users, advisors or preparers.
- e) The formulae in Bylaw 1 are designed to concentrate Board representation from provincial institutes with representatives of those institutes having the largest number of public company auditors. If the independent supervision of the underlying firms involved is the objective, then it is compromised here by this concentration.
- f) While we take issue with the concentration of auditors in their own supervision, we wonder if the standards contemplated for admission of new industry members in the Bylaw have been applied to those members already admitted. It appears that they have not.
- g) The agendas of the CPAB entities and results of deliberations will apparently not be published and it appears that only Board members shall be entitled to meeting notice.

Regulatory Inconsistencies with the United States

We understand that one of the principal objectives of CPAB is to harmonize the Canadian regulatory environment with that of the United States as formulated under Sarbanes-Oxley legislation. Clearly this has not been accomplished, as our attached comparative analysis of CPAB relative to the Public Company Accounting Oversight Board (PCAOB) illustrates.

If the intent here is to suggest that the CPAB structure is similar in nature to that of the PCAOB and to use that in support of a reciprocity request, we anticipate that the CPAB sponsors will be unsuccessful.

The Exclusion of CGAs

The exclusion of CGAs from this model has been justified to us as the need to move expeditiously on the problem and the concentration of public company auditing work among CAs.

With respect to the first point, I commend to you the views of our national president as espoused to the group mentioned in the second paragraph of this letter. CGA has been considering the need for regulatory changes contemplated here for as long as any other stakeholder has. Our involvement in this new process would have broadened the perspectives considered and improved the outcomes without compromising the timelines.

In the Province of Alberta our members can provide audit services to public companies and while they do not do so in volumes provided by CAs, those services are available and have been provided to the benefit of their clients and the Alberta public. This means that Alberta businesses may develop successfully from the "Small and Medium Sized Enterprise" (SME) level, where most CGA public accountants practice, to the point where they first access the unique capital markets of Alberta as they grow into larger concerns. These opportunities have historically been important in the success of Alberta business and should not be compromised to the monopoly objectives of another group.

Under the *Regulated Accounting Profession Act (RAPA)*, passed by the legislature of Alberta on September 13, 2001 Alberta's three professional accounting bodies, including CGAs, have established an oversight Board that sets the standards of practice review jointly. Along with setting the standards this Board also establishes: the education and experience qualifications of all practice reviewers; the frequency of practice reviews and follow-up reviews; and guidelines that in the opinion of the Board are necessary to foster common practice review procedures and standards among the accounting organizations to protect the public interest. CPAB may now evolve into another level of practice review oversight without the participation of two of these bodies and we are at a loss to understand why our members would be so disenfranchised.

CGAs are proud of their reputation as a self-regulating professional organization, a reputation that we have earned through performance. Events of the past year in the United States may have warranted and precipitated some measure of intrusion on that in the interests of public policy. However, those circumstances do not warrant the transfer of any residual authority over a sector of our profession to another professional body. They also do not justify the arbitrary exclusion of a group of accountants whose record is exemplary. Furthermore, the recent changes in Ontario with Bill 213 have resolved the regulatory monopoly of one accounting body in that province. It is therefore ironic that as Bill 213 is implemented another monopoly is propagated.

We recognize that at this point, it might be reasonable to expect us to offer alternatives to the regulatory challenges you and other agencies are focused on with respect to our profession. As we have been excluded from this process since its inception and have therefore not been party to your deliberations, that is somewhat challenging, however two clear alternatives seem apparent:

- A. CGAs should be invited to add fair formal representation on the CPAB Board, and should be given Industry Member Status in the CPAB organization, or
- B. CGAs should be asked to develop a regulatory model whose structure and operation is more consistent with what we surmise may have been the original purpose of CPAB. We are uncertain at this point how that structure would operate and whether it could be national or merely Alberta focused, but we believe it is quite feasible since the fundamental regulatory framework and the required practice review competencies are already under our control.

These obvious exclusions from CPAB and the entire process causes us concern and therefore further intrusions upon our membership to comply with a flawed model of public policy is unacceptable.

Specific questions have been raised and CGA Alberta would like to take this opportunity to offer the following responses:

Question #1

Do you agree that public accounting firms in foreign jurisdictions should be required to participate in the CPAB Oversight Program? If not, what other alternatives should be considered? For example, should a public accounting firm based outside Canada that is subject to oversight by a comparable body in a foreign jurisdiction, such as the PCAOB, be treated differently?

Public Accounting firms located outside of Canada and doing work in Canada should be subject to the same regulation as Canadian firms either directly by the Canadian regulator or indirectly through a reciprocal or harmonized regulatory requirement with the applicable foreign jurisdiction. To do so ensures fair competition within the accounting profession internationally and assures users of the services involved of a similar measure of regulatory protection.

Question #2

Do you think that five business days is an appropriate length of time for a public accounting firm to provide notice to its audit clients? Do you agree that an audit firm should only be required to provide notice to its audit clients when it fails to address defects within the time period prescribed by the CPAB? Are there other more effective means of having information about sanctions or restrictions communicated? For example, should the CPAB disclose to the public on a timely basis any sanctions or restrictions it imposes on a public accounting firm?

This question is difficult to answer outside of the context of the proposed regulatory structure and process and it speaks to a major shortcoming in this proposal generally. Before responding we would ask (theoretically for purposes of illustrating what appears to us to be required) the following:

1. What are the formal processes that take place between the regulatory agency and the accounting firm prior to the mandatory notification?
2. Has the firm been given the opportunity to answer or rectify deficiencies involved?

As to the specific question, we suggest that 5 days is not a sufficient period of time for notification of all clients in a large firm. We also recommend that the "notification" and effective dates need to be sufficiently distinct from one another to allow clients of such firms to deal with what could be the serious and disruptive consequences of receiving a new public company auditor.

We will be pleased to respond to any questions posed to us on this matter or to assist the responsible parties in changing or redeveloping the instrument and the CPAB.

Yours truly,

John S. Carpenter BA, FICB, FCGA
Executive Director and CEO

CC: Steven Sibold, Chair, Alberta Securities Commission
Greg Melchin, CA, Government of Alberta, Minister of Revenue
Victor Doerksen, FCGA, Government of Alberta, Minister of Innovation and Science
Anthony Ariganello, CGA, CPA, President and COO of CGA Canada

Attachment A: Comparison of Independent Oversight of the Public Accounting Profession in the United States and Canada

COMPARISON OF INDEPENDENT OVERSIGHT OF THE PUBLIC ACCOUNTING PROFESSION IN THE UNITED STATES AND CANADA

CPAB	PCAOB
<ul style="list-style-type: none"> ▪ industry led initiative; ▪ meetings closed to public; ▪ CICA and provincial CA institutes have significant presence in the Board's activities and governance (e.g. changes to by-laws and Letters Patent cannot be adopted unless a majority of the Industry Members - provincial CA institutes - support it); ▪ at least 15 of the 26 positions created by the CPAB's By-Law are held by CAs; ▪ the CPAB has mandate to establish requirements of firms auditing public companies and to make recommendations on accounting standards, assurance standards and governance practices; 	<ul style="list-style-type: none"> ▪ government initiative; ▪ open and transparent meeting policy; ▪ CPAs are, by legislation, allowed to hold only two of the five Board positions;
<ul style="list-style-type: none"> ▪ until 2006, only large CA firms entitled to register with the Board (even though small CA firms and non-CA firms are entitled to conduct audits of publicly-traded companies); ▪ funded by several sources, including registered public accounting firms and SEC registrants. 	<ul style="list-style-type: none"> ▪ Board shall establish or adopt by rules, auditing, quality control, ethics, independence, and other standards relating to preparation of audit reports for issuers; <ul style="list-style-type: none"> ➢ will convene "Expert Advisory Groups" consisting of practicing accountants and other experts, interest groups who are not in a conflict of interest to make recommendations concerning the content of auditing, quality control, ethics, independence, etc.; ➢ cooperate with professionals groups of accountants and advisory groups when examining the need for changes in standards; ▪ all firms conducting audits of publicly-traded companies are entitled (required) to register; ▪ funded by audit firms.

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