



BETWEEN THE LINES

Passing the buck

Government ministers are apathetic about serious accounting and securities flaws that affect Canadian investors

by Al Rosen



Pinpointing the causes of investment losses is sometimes quite easy. Getting governments in Canada to stop passing the buck, and actually take corrective actions, is close to impossible.

Over the past several months we have tested the attitudes and sincerity of our federal and provincial governments toward serious accounting and securities concerns. We provided extensive documentation to dozens of government ministers across Canada, outlining why our present regulatory and investigative system is not working, and what improvements could be made.

Aside from a hefty FedEx bill, we have little to show for our efforts. In the vast majority of cases, we either did not receive responses, or the replies referred us to other ministers or to conflicted self-regulatory organizations. No serious intent to investigate was expressed.

Given that the materials we forwarded cited the repeated failures of provincial securities commissions and auditors to protect investors, the most astonishing replies were the ones that recommended we forward our concerns to the same auditors and commissions.

Our latest concerns were driven by Canada's recent acceptance of

International Financial Reporting Standards. IFRS represents a complete rewrite of Canadian accounting rules and philosophy that opens the door to much more management leeway with financial reporting. In countries with strong securities commissions and regulatory oversight, IFRS might be workable; in Canada, the chances of success are clearly diminished.

We figured our government ministers might be interested in the fact that the new standards are not only weaker, but also that Canada will no longer have much input into setting the rules. IFRS is open to political influence from abroad, which was surely not the intention of our parliamentarians when they granted the auditors the power to set Canadian accounting rules in the first place. Issues important to Canada, such as specific requirements for our key resource industries, have already been placed on the IFRS back burner.

Given their history, this is probably what our auditors want. They have never cared that much for reacting quickly to investor concerns. Our accounting standard-setters have dragged their feet on numerous issues, including pro forma financial reporting, distributable cash reporting for income trusts, and most recently, ABCP writedowns. It is simply not worth correcting their own customers (the companies) in favour of a bunch of, in their opinion, deadbeats (investors).

In sharp contrast, Canada's auditors and the accounting standard-setters they control, always move swiftly when their lucrative auditing monopoly is at risk. They lobbied vigorously and successfully to the Supreme Court of Canada that they should not owe any duty of care to investors who put their faith in financial statement audits. They also pulled out all the stops a few years back to convince the Senate

Banking Committee that no changes should be made to their cozy existence in the aftermath of massive accounting blow-ups.

Our auditors have literally sold out the country by handing over Canada to the international interests that govern IFRS. In return, they will receive a very nice dowry in the form of costly fees they can charge their clients for IFRS conversion services. To counter the optics of the obvious monetary conflicts of interest and the substantial shortcomings of IFRS, our standard-setters make ludicrous assertions in an attempt to snow the public at large.

Statements such as "IFRS is already being used in most of the world's major capital markets," are clearly deceptions. Other claims, like that IFRS is "capable of consis-

Auditors' private advice to clients is at odds with their public marketing efforts to investors

tent interpretation and application" around the world, contrast sharply with what the audit firms tell their clients in private. One large firm summed up IFRS as follows for its clients: More choice, less detail.

Clearly, the private advice to clients is at odds with the public marketing efforts to investors. Thus, it is staggering that many legal and investment professionals still question whether there is anything to be concerned about, instead of getting down to business and formulating a plan to deal with the significant drawbacks of IFRS.

➤ Al Rosen (al.rosen@rosen-associates.com) is a forensic accountant and principal of Rosen & Associates in Toronto.