

**AL ROSEN**  
Auditors trust  
new rules despite  
flaws. *FP7*

# IFRS INVESTING

COMMENT

## *IFRS auditing a bogus pursuit*

**Auditors tout  
new regulations  
despite flaws**

AL ROSEN

In a four-part series in January, we outlined the problems associated with Canada's auditors forcing the premature use of International Financial Reporting Standards (IFRS) for public companies. Since then, the auditors have confirmed their intentions to proceed with IFRS effective January, 2011, and have dismissed the associated concerns as "fear-mongering" and "fringe opinions."

Clearly, there is significant money at stake for our auditors to simply cast off any and all doubts emanating from both the United States and Canada regarding IFRS (including those of former SEC chairman Arthur Levitt).

Canada's auditors have gone to great lengths to gloss over the massive and costly loss of transparency that IFRS will cause over the next several years. They routinely claim IFRS will put Canada on the same field with over 100 countries. It sounds impressive until you review the list, which includes such hot spots as Barbados, Botswana, Fiji, Ghana, Haiti, Honduras, Kenya, Malawi, Mauritius, Namibia,

Nepal, Papua New Guinea, Tanzania, and Trinidad and Tobago, to name a few.

Moreover, the "100 countries" stat is routinely misquoted by the auditors. It actually includes countries that merely permit the use of IFRS, not countries that require it. That promise of future comparability is the argued reason for the huge bill auditors will hand Canadian companies in the next three years.

Our auditors claim IFRS is "capable of consistent interpretation and application" despite the fact that it leaves "more room for professional judgment on the part of management and auditors."

So let's get this straight: By loosening the rules under IFRS, and allowing more management guesswork, we should expect greater consistency?

Of major importance to all Canadians is how the adoption of IFRS is bypassing our elected officials. The auditors were given authority in the 1970s to develop Canadian accounting by way of regulations in various Companies and Securities Acts. They were not, however, given the power to choose their own successor, which is what they are doing by handing control over to a foreign-controlled entity that is financially influenced by international political forces.

The benefit to the auditors

of forfeiting control goes beyond the revenue they stand to reap from IFRS services. Our auditors have a defined history of stepping farther back from addressing investor needs, while maintaining their ability to tax public companies for increasingly worthless audits. The adoption of IFRS is just the next step in that process.

A decade ago, our auditors successfully argued to the Supreme Court of Canada that annual audited financial statements should not be used by individual investors to make investment decisions. This naturally raised the question of an audit's value. The next 10 years saw the accounting standard setters systematically introduce greater management leeway into accounting rules.

With IFRS introducing "more room for professional judgment," it's easy to see where the auditors are heading. Simply stated, IFRS gives too much reporting freedom to management in too many

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ment is given greater freedom to tell their company's financial story. Five years ago, Canada changed its accounting to allow companies to stop expensing goodwill, and to fair value the amount every year using extensive "professional judgment." Not surprisingly, few companies report goodwill impairments, even though the vast majority of such assets naturally deteriorate with time. The result: bloated and incomparable profit figures that are rubber-stamped by the auditors.

IFRS conveniently assumes an exceedingly high level of reporting consistency that is simply not compatible with Canada's history. Many of our large financial failures are traceable to accounting chicanery, including reporting uncollectible revenue, executive self-dealings not at fair market value, dwindling cash receipts netted against restructured loans to hide losses, borrowed cash mixed with earned revenue reported together as cash profits, and much more.

Nonetheless, our auditors continue to dismiss such concerns out of hand, peddle unsupported generalities and mislead investors with bogus claims and stats, all in an effort to secure a windfall from providing IFRS switchover services. Investors, on the other hand, cannot afford to be so spurious and nonchalant, since their retirement savings are at stake.

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**Investors cannot  
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scenarios. The resulting financial statements cannot be audited because of the absence of concrete restrictions on what is not permissible. This lack of substance is what will really set Canada back when it comes to competing with international peers.

Canada has already seen what happens when manage-

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