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**Key foundations for high-quality reporting: Good practices  
of monitoring and enforcement, and compliance**

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# Case Study on Compliance Monitoring and Enforcement of Accounting and Reporting Standards: Canada

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# Agenda

- Some words of caution
- Canada: An Overview
- Monitoring and Enforcement:
  - Financial Reporting
  - Audit/Assurance
  - Profession
- Synthesis and Moving Forward

# Some Words of Caution....

Canada is a federation with 13 provinces:

- Financial reporting standard-setting is devolved by the Federal Parliament to CPA Canada;
- Provinces enact, monitor and enforce securities laws and regulations ;
- Provinces oversee professional accountants;
- CPA Canada
- Criminal law = Federal; Civil law = Provinces
- Common law but Quebec is Code law

# Country Overview

- 35 million inhabitants; \$Canadian 1.9 trillion GNP; 2% growth
- Services = 70% of economy, with finance, insurance, real estate, rental, leasing, management representing 21%
- Net energy exporter, resources representing a high % of exports
- One major stock exchange (TSX), with overall stock market capitalization of around \$Canadian 2 trillion (100% of GNP):
  - Highly concentrated: TSX/S&P 60 Index = 70% of overall market
  - Financial services, 35% of Index; Resources, 38% of Index
  - Few foreign listings
  - Extensive cross-listing on U.S. markets by Canadian firms
  - Firms with dominant shareholder = 40% of country`s stock market capitalization
  - Large number of micro-capitalizations !
- Accounting profession dominated by Big 4 international firms (Deloitte, EY, PWC, KPMG) plus 3 national firms (BDO, Grant Thornton, MNP). The 7 derive 90% of industry`s revenues.
- Canadian accounting profession recently unified as CPA.
- Canada is a IFRS country but Canadian firms cross-listed on U.S. markets may use U.S. GAAP.

# Monitoring and Enforcement: Financial Reporting

Accounting Standards Board:

- Standard enactment

Provincial securities commissions (or CSA):

- Monitoring and enforcement

Tools:

- Cease trade orders, restatement order, fines and penalties, disgorgement, bans, court litigation, possibility of jail sentence

Budgets:

- Emphasis on compliance vs. enforcement (SEC: 20% vs. 34% of budget ; proportions probably flipped in Canada)

# Monitoring and Enforcement: Financial Reporting

A Major Issue: Fraud cases

➤ Fraud implies criminal law, a federal responsibility, and requires involvement of Royal Canadian Mounted Police and other criminal law enforcement agencies.

Very few cases of successful prosecution of financial reporting fraud cases (Livent, after lengthy proceedings – 1998 to 2009)

# Monitoring and Enforcement: Audit/Assurance

Auditing and Assurance Standards Board

- Standard enactment (ISA)

Canadian Public Accountability Board (sponsored by CSA)

- Oversight of auditors involved with listed firms and other publicly accountable entities
- Essentially monitors that audit firms apply professional standards
- Violations not publicly reported (vs. PCAOB in the United States)

Ontario Securities Commission is taking more active stand with respect to audit failures

- Recent illustration: Sino-Forest case vs. auditor EY

Class action litigations more visible and taxing on audit failures:

- Livent, Castor Holdings and Sino-Forest



# Monitoring and Enforcement: Profession

Professions and practice of “public accounting” under provincial oversight

National coordination for entry into the CPA profession

Complaints against individual auditors under responsibility of provincial institutes, which are self-regulatory

➤ Emphasis on compliance (inspection)

# Synthesis

## Moving Forward

Multi-dimensional monitoring and enforcement:

- One set of standards but provinces regulate securities markets
- Civil law is provincial; criminal law is federal
- Audit firms and individual auditors have subject to different oversights – importance of self-regulatory bodies
- Importance of SEC oversight