

June 18, 2002

Standing Committee on Banking, Trade and Commerce  
c/o Denis Robert  
The Senate  
Parliament Buildings  
Ottawa, Ontario  
K1A 0A4

Dear Mr. Robert:

With recent events, beginning with the Enron debacle in the United States, receiving so much media attention and subsequent examination by your committee, I feel compelled to put forth my considered opinion and suggestions for improvement of the financial industry in this country. I have been an independent Chartered Accountant for over 35 years with a single office located in Toronto. I have no axe to grind and I offer the following as constructive recommendations with the sole objective of improving the industry.

To begin, let me state that it is my firm belief that no one group, be it auditors, accountants, the Ontario Securities Commission, Toronto Stock Exchange, brokerage houses, security analysts, management, shareholders or investors, is solely responsible for the problems that have arisen in the reporting of financial statements of publicly traded corporations.

Beginning with the **Audit Committees** of publicly traded companies, the following are some suggestions pertaining to how they should be structured (in no particular order):

- Members should NOT be part of the company's Board of Directors.
- They should not be doing business with the audited company.
- They should not be associated with the prior auditor.
- They should not be associated with the consulting department.

**However:**

- Members SHOULD report to shareholder in the company's annual report;
- and receive approval for appointment annually by the shareholders at the company's annual meeting.

**In Addition:**

- A charter of Auditing Committee structuring rules should be developed with assistance from the Government.
- The CICA should determine the role to be assumed by Audit Committees as well as their function.
- Senior company staff should report to the Audit Committee with any recommendations or complaints.
- The terms of employment of designated key employees should be subject to their approval with disclosure made to shareholders in the company's annual report.

- All non-operational costs not directly associated with a company's operations should be listed, ie: country club memberships, sponsorship of events, conferences, etc.
- The performance of outside accountants should be evaluated on an annual basis and a recommendation made regarding their retention or dismissal.

Just as the above is recommended for Audit Committees, the following is recommended in regards to **Boards of Directors**:

- Directors of publicly traded companies must be free of distractions caused by the provision of perks, ie: payments for consulting fees, legal fees, leases and contracts, etc.
- Directors must not be on the Audit Committee.
- Directors must not be employees of the company.
- They must not have the use of company assets for their personal use.
- They must not be a major company shareholder.
- They should be prohibited from serving on key committees.
- Like auditors, they should be subject to annual approval.
- Boards of Directors should be comprised of a cross-section of experienced business people, not just CEO's, members of other boards, or retired politicians.
- They should be held personally liable for gross mismanagement.
- A director's investment in side deals orchestrated as payment for their participation on the board must be disclosed.

In the case of **Accounting Firms** being independent, I suggest the following:

- They should not make political contributions.
- They should not be members of a company's Board of Directors, nor should previous auditors be on the Audit Committee of a company that their previous firm now audits.
- The Accounting Firm and its partners should be held accountable.
- The Accounting Firm should make full disclosure as to the client's interest in other companies and its non-consolidated entities, even if equity is below 51%.
- The firm should discourage personal relationship with audit clients.
- The firm's key employees should report to the Audit Committee annually.
- The firm should have no political connections with audit clients.
- Retired outside accountants previously associated with the auditor cannot be hired by the audited company for a minimum period of three years.
- Audit of pension plans of audit clients should be prohibited.

And finally, **Regulatory Bodies**. The question needs to be asked, What did they know and tolerate? What relationship existed with the auditing firms? And are they financially capable of

investigating quickly, adequately, and effectively, so that confidence is not lost by the parties who sustained the damage, ie: the shareholders?

- The investigative process must be speeded up so the guilty parties can be dealt with.
- The culpability of Audit Firms must be made clear.

**Further:**

- Off balance sheet financials distort the financial health of the guarantor company when they are not consolidated. As long as there is a guarantee, they should be reflected prominently as proforma statements on a consolidated, line-by-line basis or on a segmented basis.
- Auditors must be both independent and actually seen to be independent rather than as currently seen - purveyors of services.
- The CICA conflict of interest and auditor independence guidelines are rudimentary. They are based primarily on professional judgement. Proper rules rather than mere guidelines are needed.
- Make governing accounting bodies, ie: CICA and ICAO, independent of Audit Firms.
- Auditors must be independent and should not sell the services of an internal auditor to the clients.

**In conclusion:**

It is abundantly obvious that changes are needed and immediate action is required. In the short term, the marketplace will decide what is required but the guilty parties must be seen to be punished as a deterrent to others who may be tempted to commit the same errors, ie: **there must be protection for the innocent, whether they be shareholders, investor, auditor, etc.**

It is my fervent hope that the recommendations and suggestions made here will be considered by the committee. If you would like to discuss any of these further, I would be happy to make my time available to you. I may be contacted at 416-863-1400, extension 309.

Yours very truly,  
**RICH ROTSTEIN**  
**Larry W. Rich, FCA, TEP**

LWR/mm