Public Accounting

HD9505
.C3
I5
1990-91
P1 c.2

IC

INDUSTRY PROFILE

Industry, Science and Technology Canada
Industrie, Sciences et Technologie Canada

ISTC Business Service Centres

These centres have been established in every Industry, Science and Technology Canada Regional Office and at Headquarters to provide clients with a gateway into the complete range of ISTC services, information products, programs and expertise.

Newfoundland

Atlantic Place
Suite 504, 215 Water Street
P.O. Box 8950
ST. JOHN'S, Newfoundland
A1B 3R9
Tel.: (709) 772-ISTC
Fax: (709) 772-5093

Prince Edward Island

Confederation Court Mall
National Bank Tower
Suite 400, 134 Kent Street
P.O. Box 1115
CHARLOTTETOWN
Prince Edward Island
C1A 7M8
Tel.: (902) 566-7400
Fax: (902) 566-7450

Nova Scotia

Central Guaranty Trust Tower
5th Floor, 1801 Hollis Street
P.O. Box 940, Station M
HALIFAX, Nova Scotia
B3J 2V9
Tel.: (902) 426-ISTC
Fax: (902) 426-2624

New Brunswick

Assumption Place
12th Floor, 770 Main Street
P.O. Box 1210
MONCTON, New Brunswick
E1C 8P9
Tel.: (506) 857-ISTC
Fax: (506) 851-6429

Quebec

Tour de la Bourse
Suite 3800, 800 Place Victoria
P.O. Box 247
MONTREAL, Quebec
H4Z 1E8
Tel.: (514) 283-8185
1-800-361-5367
Fax: (514) 283-3302

Ontario

Dominion Public Building
4th Floor, 1 Front Street West
TORONTO, Ontario
M5J 1A4
Tel.: (416) 973-ISTC
Fax: (416) 973-8714

Manitoba

8th Floor, 330 Portage Avenue
P.O. Box 981
WINNIPEG, Manitoba
R3C 2V2
Tel.: (204) 983-ISTC
Fax: (204) 983-2187

Saskatchewan

S.J. Cohen Building
Suite 401, 119 - 4th Avenue South
SASKATOON, Saskatchewan
S7K 5X2
Tel.: (306) 975-4400
Fax: (306) 975-5334

Alberta

Canada Place
Suite 540, 9700 Jasper Avenue
EDMONTON, Alberta
T5J 4C3
Tel.: (403) 495-ISTC
Fax: (403) 495-4507

Suite 1100, 510 - 5th Street S.W.
CALGARY, Alberta
T2P 3S2
Tel.: (403) 292-4575
Fax: (403) 292-4578

British Columbia

Scotia Tower
Suite 900, 650 West Georgia Street
P.O. Box 11610
VANCOUVER, British Columbia
V6B 5H8
Tel.: (604) 666-0266
Fax: (604) 666-0277

Yukon

Suite 301, 108 Lambert Street
WHITEHORSE, Yukon
Y1A 1Z2
Tel.: (403) 668-4655
Fax: (403) 668-5003

Northwest Territories

Precambrian Building
10th Floor
P.O. Bag 6100
YELLOWKNIFE
Northwest Territories
X1A 2R3
Tel.: (403) 920-8568
Fax: (403) 873-6228

Headquarters

C.D. Howe Building
1st Floor East, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 952-ISTC
Fax: (613) 957-7942

Publication Inquiries

For individual copies of ISTC publications, contact your nearest Business Service Centre. For more than one copy of ISTC publications, please contact

For Industry Profiles:

Communications Branch
Industry, Science and Technology Canada
Room 704D, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-4500
Fax: (613) 954-4499

For other ISTC publications:

Communications Branch
Industry, Science and Technology Canada
Room 208D, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-5716
Fax: (613) 954-6436

The material in this profile may be reproduced in whole or in part without permission. If reproducing extended passages, please acknowledge the source with appropriate credit.

Canada

(V.5.91.06)

I N D U S T R Y   P R O F I L E

INDUSTRY, SCIENCE AND TECHNOLOGY CANADA LIBRARY

AUG 1 3 1991
BFGT

BIBLIOTHÈQUE INDUSTRIE, SCIENCES ET TECHNOLOGIE CANADA

1990–1991

PUBLIC ACCOUNTING

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990–1991 series represents an updating and revision of the series published in 1988–1989. The Government will continue to update the series on a regular basis.

Michael Wilson

Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Structure and Performance

Structure

The world's economy for the past 40 years has been characterized by significant economic growth, expanded patterns of international trade and the globalization of business. The accounting profession plays a key role in this period of rapid change by providing analysis, interpretation, recording and presentation of financial information.

Although accounting in its broad sense extends beyond financial measurement, this profile covers public accounting, which is the area of accounting involved in adding credibility to financial information so that it can be relied on by third parties. Specifically, this document does not address management accounting, which provides business with advice and direction on strategic, tactical and operational decisions by drawing on financial and non-financial data.

Canada had an estimated 85 000 professional accountants and 52 000 accounting students in 1989. The estimated 25 000 professional accountants in public practice offer their services to clients on a fee-for-service basis; they belong to the Canadian Institute of Chartered Accountants (21 500 members), the Certified General Accountants' Association of Canada (3 000 members) or the Society of Management Accountants of Canada (500 members). The provincial counterparts of these national accounting organizations are self-regulating bodies that bestow the professional accounting designation of Chartered Accountant (CA), Certified General Accountant (CGA) or Certified Management Accountant (CMA) on students who successfully complete their studies and examinations (Figure 1). An additional

60 000 professional accountants employed in industry, government and academe are involved in a wide range of managerial, teaching and financial accounting activities.

In 1989, trade publications estimated that the public accounting profession generated $4 billion in revenues. This figure includes the revenues of the management consulting practices of accounting firms, estimated to be in excess of $600 million.

Public accounting practitioners perform a number of functions, the most prominent of which is to carry out an external financial audit, which consists of the independent examination of a company's financial statements and supporting records. The audit is performed in accordance with generally accepted auditing standards, in order to enable the accountant to express an opinion as to the fairness and reliability of the financial information in keeping with generally accepted accounting principles. These activities underpin the credibility of the financial information presented to corporate shareholders and third-party users such as financial institutions and other lenders. An annual independent financial audit of publicly traded companies, or companies over a certain size in terms of sales or assets, is in fact required by a number of provincial and federal statutes. Audits may also be required by securities commissions, financial institutions and other organizations.

Public accountants also perform a review function, consisting primarily of inquiry and discussion with management to assess whether the financial information is plausible. This service is provided in circumstances in which a lower degree of assurance is regarded as adequate for the purposes of those seeking the assurance.

In addition to the audit and review functions, public accountants provide basic bookkeeping, accounting system organization and design, taxation planning and compliance, and management advisory services. Insolvency, merger and acquisition services as well as information technology consulting are offered primarily by large accounting firms.

The provision of general accounting services, audits, reviews and financial statement compilation to clients accounts for 55 to 65 percent of industry revenues. Tax planning and compliance account for 15 to 20 percent of revenues. The balance is generated primarily from non-accounting management consulting or advisory services. These latter areas offer significant growth opportunities, while the traditional audit function does not.

Public accountants work as employees of an accounting firm, as self-employed individuals or in partnership with other qualified professionals. A partnership is the typical organizational structure, although incorporation of a professional accounting practice is possible in Alberta, British Columbia and New Brunswick. These professional corporations do not limit the liability of the accountants in respect of their work. Incorporation may provide a firm with access to additional credit facilities and a somewhat more favourable taxation treatment. The largest public accounting firms are partnerships established by CAs that employ CAs, accounting students and, to a lesser extent, accountants with CMA and CGA designations. In addition to the CA firms, some CGA firms also provide public accounting services. However, only a few CMA firms are engaged in public accounting, as the focus of this group is on management accounting.

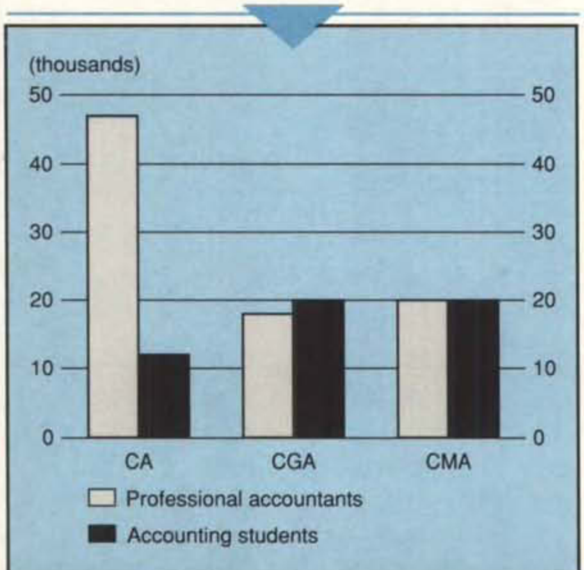

Figure 1 — Professional Accountants and Accounting Students, 1989

Public accounting in Canada is characterized by a few very large national accounting firms, a number of medium-sized regional firms and numerous smaller local firms and sole practitioners. The large firms are known for their audit, taxation, insolvency and management advisory services. The small firms and sole practitioners seek to distinguish themselves by their fast turnaround times, personal relationships with clients and responsiveness to client requests for general services. The medium-sized firms, also service-oriented, tend to specialize and find niche markets.

Small and medium-sized accounting practices are generally more heavily dependent on the provision of general accounting services than are the larger firms. Taxation services are also an important source of revenue for the smaller firms. Small clients tend to receive their audit services from large and small public accounting firms and rely on small public accounting firms for other services, while large clients tend to receive auditing and other services from large accounting firms.

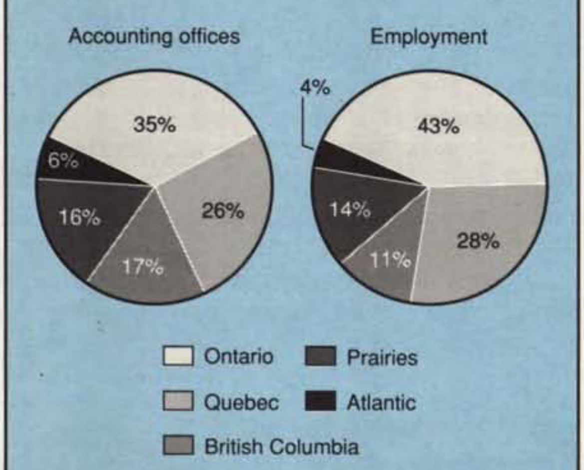

Figure 2 — Regional Distribution of Offices and Employment, 1988

A 1988 Statistics Canada survey[1] of the accounting profession revealed that the 5 569 accounting firms in Canada had 6 135 offices, employed 53 554 people, and earned revenues of $3.25 billion. The survey also showed that the 17 firms with individual revenues in excess of $10 million generated 62 percent of the industry's revenues and employed 57 percent of the total personnel, while 5 289 firms with individual revenues below $1 million accounted for 22 percent of industry revenues and 27 percent of its employment. Ontario and Quebec are important markets for accounting firms (see Figure 2), as shown by the number of accounting offices and level of employment in these provinces.

Owing to the depth of their human resource complements and sectoral experience, large accounting firms generally perform the complex audits of large domestic or multinational corporations. For example, the top 10 accounting firms audit approximately 90 percent of Canada's largest corporations. The prevalence of branch plants in Canada's industrial structure also contributes to the domestic growth of large, internationally connected accounting firms, as Canadian subsidiaries of foreign firms generally appoint the same firm of auditors as are used by the parent organization.

The smaller firms generally lack international alliances. However, this situation is changing, as smaller firms are moving to develop international alliances in addition to the national or interprovincial affiliations some have established.

Performance

The domestic accounting profession weathered the 1981–1982 recession fairly well. Business publications reveal that four of the top 10 accounting firms increased their revenues by 13 percent in 1982 over the previous year's level; from 1983 to 1985, the same four firms posted a 22 percent increase in revenues; and by 1988, they had registered a 75 percent revenue gain over the 1983 level. Collectively, the top 10 accounting firms in Canada doubled their fee income to $1.73 billion between 1983 and 1988.

Perhaps more than in any other sector, the growth of individual accounting firms has been a direct result of mergers and acquisitions. This route provides access to additional trained and skilled human resources, wider corporate marketing networks and possibilities for increased market share and broader geographical representation, without the difficulties often associated with opening new offices and establishing client bases. From 1981 to 1988, there was no change in the identity of the largest 10 accounting firms in Canada, although the relative rankings of the firms shifted slightly in terms of revenues, number of partners and total professional complements. This situation was in part a result of their continuing mergers with and acquisitions of small and medium-sized domestic accounting firms and the additional business arising as a result of a similar investment strategy on the part of their clients.

On the international scene, industry mergers resulted from a drive by organizations to become stronger and more competitive globally as well as a desire to keep pace with technological change and to expand or to deepen service offerings in more profitable, specialized areas. The industry was long characterized by several very large firms, referred to as the "Big 8": they were Arthur Andersen & Co.; Arthur Young & Co.; Coopers & Lybrand; Deloitte, Haskins & Sells; Ernst & Whinney; Peat Marwick (subsequently Klynveld Peat Marwick Goerdeler following its merger with Klynveld Main Goerdeler); Price Waterhouse; and Touche Ross & Co. Although some of these firms trace their origins to the last century, their wide national and international linkages were generally established in the 1960s and 1970s in response to the continuing growth and development of the multinational corporation and the globalization of business. The "Big 8" firms dominated the practice of public accounting worldwide and in Canada, where they were represented through an affiliation with domestic firms or through Canadian partnerships of the same name. Some medium-sized Canadian accounting practices also developed affiliations with offshore accounting groups.

[1]Statistics Canada, "Survey of Professional Accountants, 1988," *Service Industry Bulletin*, March 1991, Statistics Canada Catalogue No. 63-015, bimonthly.

In mid-1989, several of the Big 8 international firms merged and the group became the "Big 6." The merger of Ernst & Whinney and Arthur Young & Co. resulted in the new firm of Ernst & Young. In Canada, this merger affected Clarkson Gordon and Thorne, Ernst & Whinney; Clarkson Gordon, the Canadian member of Arthur Young International, changed its name to Ernst & Young, while Thorne, Ernst & Whinney joined Peat Marwick to become Peat Marwick Thorne. A merger involving Deloitte, Haskins & Sells, Touche Ross & Co. and Tohmatsu Awoki Sanwa, a Japanese audit corporation, resulted in the formation of Deloitte, Ross, Tohmatsu internationally and Deloitte & Touche in Canada. While these large mergers made headlines, numerous others took place and continue to occur as the profession moves forward into the 1990s.

In addition to the restructuring embodied in the widespread merger activity, the continuing development of management advisory and tax planning services, which are driven primarily by client need rather than by statutory regulation or third parties, have contributed to the growth of the large Canadian accounting firms. The nominal annual growth in these services has been more than 10 percent for the past several years. The audit engagement provided the springboard for growth in these service areas. The auditor, having first-hand knowledge of the client's financial position, control procedures and management techniques, is well-placed to recommend consulting services to the client. An estimated 30 percent of the consulting clients of the Big 6 accounting firms are also their audit clients.

Although the profession has strong international linkages, very little trade in auditing, review and accounting services occurs between Canada and other countries. Factors contributing to limiting the trade include differences in business and tax laws and accounting requirements as well as the existence of affiliates of domestic accounting firms in foreign markets. These affiliated firms can undertake work on behalf of a Canadian client more efficiently, and at less cost, in their domestic markets than can the Canadian associate. The use of affiliates also eliminates problems due to border measures, local licensing requirements and exchange fluctuations. There are frequent exchanges of personnel on a temporary as well as a permanent basis within the international firms, which are often undertaken for career development or for meeting technical and operational needs.

The profession's management advisory services are exportable but, because of the sophisticated nature of this profession in many developed countries, growth markets tend to be in the developing countries. Nonetheless, larger Canadian accounting firms have had some success in the U.S. market, particularly in highly specialized areas.

The performance of the public accounting profession has come under intense scrutiny in recent years. The failures of the Canadian Commercial Bank, the Northland Bank and the Principal Group as well as other business failures have prompted an examination of the role of the auditor by the Canadian Institute of Chartered Accountants (CICA) through the Commission to Study the Public's Expectations of Audits. Created in February 1986, the Commission examined whether there is a gap between what the public expects and what auditors can reasonably be expected to accomplish in an audit. Implementation of the Commission's recommendations to narrow the gap will be an ongoing challenge for the profession and will influence all public auditors.

Strengths and Weaknesses

Structural Factors

The profession's strengths include its well-educated professionals, self-governing nature, standard-setting ability and international affiliations. Differing public practice rights, increasing international dominance of a few large firms, fragmentation and the question of auditor independence, in view of the provision of management advisory services, are issues facing the profession.

Educational requirements for entry into the accreditation program vary by professional organization. The accounting bodies generally require university graduation as a minimum entry requirement, although the CGA program does accept high school graduates. With an increasing emphasis on university education, the number of accounting designations being conferred on non-university graduates will decline. Professional accreditation is granted to those who meet entry-level educational requirements of the respective organizations, complete their prescribed training program and examinations, and have several years of practical experience. The practical experience requirement of CAs must be met in an approved public accounting office and CMAs must achieve their practical experience in a management accounting environment. CGAs may attain their experience in an accounting or related field in public practice, government or industry.

Provincial legislation generally identifies those professionals permitted to engage in public accounting. Chartered accountants may practise public accounting in any Canadian jurisdiction; CGAs and CMAs do not have the same public accounting rights. In British Columbia, public accounting is limited to CGAs and CAs. In Ontario, Quebec, Nova Scotia, Prince Edward Island and Newfoundland, only CAs have full public accounting rights. The CGAs are permitted to audit school boards, municipalities, credit unions and co-operatives in Quebec while, in Nova Scotia, a number of CGAs have been granted public practice licences by that province's Public Accounting Board. The Yukon, Northwest Territories, New Brunswick and Alberta restrict public accounting to members of the three professional accounting organizations. However, in Alberta, only CAs may sign audit reports filed with the Alberta Securities Commission on publicly traded issues. In Manitoba, the *Companies Act* makes no mention of auditor qualifications, although other pieces of provincial legislation require an auditor to be a member of one of the three professional accounting organizations. Although CMAs and CGAs have virtually the same public accounting rights as CAs in Saskatchewan, they must apply and be accepted to act as an urban municipal auditor.

CGAs are attempting to expand their public accounting rights. In Prince Edward Island, for example, two CGAs have mounted a court challenge in an effort to gain the right to provide public accounting services to their clients. Following several representations by CGAs in Ontario, the accounting groups are now awaiting that government's announcement of the principles that will guide it in drafting new legislation that would open the public accounting market in Ontario to CGAs and CMAs meeting certain specified conditions. Apart from any accountant then in public practice, only Chartered Accountants have had access to the large Ontario public accounting market since April 1962.

Provincial legislation generally grants accounting bodies the powers to prescribe tests of competency to qualify for admission to the organization, to promote the knowledge, skill and efficiency of members, and to regulate and govern the conduct of members. By virtue of such legislation, provincial accounting organizations have responsibility for the education, training, examination, discipline, practice review and professional development of their members. Education, training and examination are generally uniform within each accounting body across Canada. All provincial accounting organizations require their members in public practice to participate in practice inspections or peer review on a regular basis and all have professional development programs for members, though not all members are required to participate. Strict codes of professional conduct exist to ensure independence and to safeguard the public. Disciplinary action is taken against members breaching these codes.

In Canada, the Canadian Institute of Chartered Accountants has responsibility for setting accounting and auditing standards. Standards are set by its volunteer Accounting Standards and Auditing Standards Committees and published in its *Handbook*. The *Handbook* is the Canadian authority for generally accepted accounting principles and generally accepted auditing standards. The Institute's work in this field is recognized by governments and its standards are referenced in the regulations to the *Canada Business Corporations Act* and other federal as well as provincial legislation. There is also a Public Sector Accounting and Auditing Standards Committee of the Institute as well as a separate *Handbook* for those standards.

The three professional accounting groups are active participating members and share Canadian representation in the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC). The IFAC initiates and co-ordinates the efforts of member organizations to achieve international auditing, ethical and educational guidelines for the profession, while the IASC works for the improvement and harmonization of accounting standards and procedures relating to the presentation of financial statements. Pronouncements of these organizations are not binding on Canadian accountants or any of the other member-country practitioners, though Canadian standards are generally consistent with international pronouncements. All three Canadian professional accounting organizations are also members of the Confederation of Asian and Pacific Accountants (CAPA). The Canadian Institute of Chartered Accountants is a member of the Interamerican Accounting Association.

The industry is adapting to the effects of economic globalization. The mid-1960s brought the advent of the large international accounting firm, created in response to the operational needs of clientele looking to operate beyond national boundaries. The continued growth of the multinational corporation has increased the demand for accounting and other services provided by firms with international affiliations. Canadian accounting entities are strong participants in these international relationships, and their clients are well-served by these linkages.

A 1983 study[2] of the profession pointed to the continuing growth in market position of the major international auditing firms relative to the firms not affiliated with them. The growth of these firms in Canada was calculated on the basis of their audits of a sample of large companies. In 1971, the Big 8 firms audited 41 percent of large Canadian corporations sampled. By 1980, following mergers and acquisitions, these accounting firms, together with Thorne Riddell, the domestic associate at the time of Klynveld Main Goerdeler, were auditing 90 percent of the corporations sampled. These

[2]Vinod B. Bavishi and Harold E. Wyman, *Who Audits the World: Trends in the Worldwide Auditing Profession* (Storrs, Connecticut: University of Connecticut, School of Business, Center for Transnational Accounting and Financial Research, 1983).

corporations had 99 percent of the sales and assets of the sample. The remaining corporations in the sample were audited by non-affiliated accounting firms.

The full implications of the mid-1989 mergers of international accounting firms are not yet clear. Questions arise from time to time on the effects of industry concentration and whether it is in the public interest to have a small number of international companies auditing the majority of publicly traded companies in Canada, the United States, the United Kingdom and Europe. Advantages with respect to breadth and depth of service offerings and possible operating economies that might be passed on to clients will have to be considered in the context of the possible adverse effects of increased concentration domestically and globally.

The large accounting firms dominate the public accounting services provided to banking, communications, energy and insurance, among other sectors. As many industrial sectors are mature or fast approaching that position, one accounting firm's revenue growth must come from new business in service areas held by other firms or from clients currently served by an audit competitor. While some client firms may switch auditors, change is not common in the industry because of the time required by the parties to establish a good working relationship and by the auditor to understand the operational aspects of the business.

While professional codes of conduct address the issue of professionalism and independence, the movement to expand services beyond auditing to management consulting has raised some concerns outside the profession. Auditors, while responsible to shareholders, are paid from the earnings generated by management on whose results they are reporting. When consulting services are provided by an accounting firm to aid management in running a business, the accounting firm might eventually become involved in auditing the results of its own work. There is no prohibition on such activity other than the requirement that independence be maintained. The report of the Commission to Study the Public's Expectations of Audits acknowledged a public perception that auditors might be influenced by the non-audit services undertaken for audit clients. Although many in the profession believe that the concerns were unfounded, the report recommended that auditors have an obligation to avoid any bias or predisposition that could result from the consulting advice they provide. It also added that independent advice from third parties may be helpful on occasion to ensure compliance.

Trade-Related Factors

There are no tariffs on the provision of accounting services to Canada or abroad or significant tariffs on goods associated with accounting services. However, there are factors that interfere with international trade in accounting services. Concerns of the accounting profession include the need for regulatory transparency, national treatment, right of establishment, labour mobility and non-discriminatory accreditation procedures.

The Chartered Accountant designations of several countries, including the United Kingdom and Australia, as well as the professional accounting designations of the United States, Japan and several other countries, are recognized by the Canadian Institute of Chartered Accountants. Recognition of a foreign designation by the Institute, and subsequently by provincial Institutes of Chartered Accountants, exempts foreign accountants from writing the CA Uniform Final Examination. However, a foreign candidate must abide by immigration laws and the requirements of the provincial CA institute, and must be tested successfully on Canadian law, tax, ethics and the *CICA Handbook* in order to be admitted to the profession in Canada as a Chartered Accountant.

Several provincial Institutes of Chartered Accountants recognize the Certified Public Accountant (CPA) designation of the American Institute of Certified Public Accountants (AICPA). However, the CA designation has not been recognized by the U.S. profession since 1980. At the present time, Canadian accountants are not exempted from writing the CPA final examination. Furthermore, the CPA designation is not fully portable within the United States, where accountant mobility is dependent on reciprocal agreements between state licensing boards. Nor is there reciprocity between the Society of Management Accountants of Canada and its professional counterparts, the National Association of Accountants in the United States and the Chartered Institute of Management Accountants in the United Kingdom.

Technological Factors

The nature of the accounting profession is being altered by the technological change arising from the advent of the computer and, more recently, the explosive growth of information technology following the proliferation of personal and portable computers. These technologies have already greatly increased audit efficiency. For instance, electronic transmission of client data for review and analysis offers significant time savings. As well, computer software, developed in-house by the larger firms, is improving labour efficiency in carrying out audit or tax services and repetitive work by enabling large amounts of information to be quickly and accurately processed and analyzed.

These technologies also give rise to challenges. Client-developed information systems providing management with decision-making data can be complex and are not necessarily developed with internal controls in mind. The absence of controls and built-in checks in systems creates needs for new audit tools and techniques, and the auditor must evaluate the effectiveness of the internal control systems in an increasingly complex environment.

The professional accounting organizations have recognized these challenges and are continuing to focus on them through professional development courses and the publication of information on the application of technology and related issues for the accounting profession. The Certified General Accountants' Association of Canada introduced its Program 90, integrating microcomputers with an accounting education program, as a way of linking computer technology to accounting skills. The Canadian Institute of Chartered Accountants commissioned a task force in 1989 to examine the impact of information technology on its members. Technology also figures prominently in the growing management advisory services area, where potential exists to expand services in training and decision-making support systems.

Evolving Environment

The recommendations contained in the June 1988 report of the Commission to Study the Public's Expectations of Audits were aimed at strengthening the independence and professionalism of the auditor, extending and improving financial disclosure and alleviating public misunderstanding respecting the role of the auditor and the audit. Standard setting, codes of conduct and professional behaviour are addressed in the report. While the Commission's recommendations are not binding, the accounting profession is expected to implement them over time as a way to lessen the gap between the auditors' functions and public expectations.

The Institute is also implementing the recent recommendations of its 1989 task force on technology, which called for the establishment of standards, educational programs and services necessary to maintain the profession at the forefront of information technology. In addition, a specialist category in information technology may be introduced at a later date. However, specialty designations are not currently conferred on professional accountants in Canada and views are mixed on this option. Sole practitioners as well as accountants in small firms may be the least likely to benefit from specialty designations, since some may not have the necessary resources to obtain the designation and their client base may not support a specialized service provider. On the other hand, such a designation may facilitate the growth of the small "boutique" firms of highly specialized practitioners. Movement on this issue is expected to be slow, as specialty designations could place a burden on the training and accreditation process.

The U.S. profession, at the state and national levels, has also been reviewing the issue of specialty designations. The AICPA currently has an accredited specialist program in personal financial planning based on experience, education and examination. A CPA meeting the criteria is designated as an Accredited Personal Financial Specialist.

The CAs are currently examining ways of reshaping the qualification process and revitalizing the practical experience component of their educational process. As well, they are examining a national precertification education strategy to ensure consistent content and program delivery. The CGAs introduced their Program 90 and the CMAs have introduced a new education/accreditation program whereby successful completion of mandatory entrance examinations will lead to a two-year program of professional studies, practical experience and final accreditation examination.

In the context of international trade, the Certified General Accountants' Association of Canada in August 1989 circulated a strategic planning discussion paper, in which it identified a need to restructure the accounting profession to take advantage of a more liberalized trade environment, particularly in the context of the Canada-U.S. Free Trade Agreement (FTA), the ongoing multilateral trade negotiations under the General Agreement on Tariffs and Trade and the developments leading to the economic integration of Europe after 1992. The Association's two principal proposals involve the establishment of a national auditor certification standard and the independent setting of accounting and auditing standards. Implementation of the proposals would contribute to national public accounting rights for interested CGAs and CMAs.

However, as the proposals affect significantly the standard-setting responsibilities that the Institute considers so important, they may prove unacceptable to that group, lessening the possibility of their implementation. It appears unlikely that there will be any movement within the profession in the short term on the issues of unification and independent standard setting unless direction is seen to come from the Canadian Institute of Chartered Accountants.

The Canadian Institute of Chartered Accountants, the AICPA and the National Association of State Boards of Accountancy (NASBA) have initiated a dialogue aimed at developing a framework for reciprocity for those of their members who move to the other jurisdiction. The goal is to enable the granting of full CA status to individual American CPAs and the granting of full CPA status to individual Canadian CAs who have passed appropriate tests on local tax, law, ethics and accounting standards. Achievement of reciprocity depends on a number of factors, including an evaluation of existing professional examinations, education requirements and practical experience.

The process currently under way in Europe toward economic integration may provide a model for the future international trade in accounting services. Specifically, in a unified European Community (EC), there will be an equivalency of qualifications enabling mobility for providers of statutory audits within the EC. Each member state will be responsible for establishing entry-level educational requirements and ensuring the professional competence of its accounting service providers. Accountants will be free to practise in any member state, subject only to a knowledge of local laws.

From the perspective of trade opportunities, the international firms will be likely to gain from the unification of the EC market as they continue their continental expansion and compete for the audit business in the hands of independent EC accounting practices. As well, the large domestic entities with international connections will be in a position to offer domestic clients consulting advice on the investment and trade opportunities the unified market might hold and, by referrals from affiliates, conduct audits of newly established EC companies in Canada.

The goods and services tax (GST), introduced on 1 January 1991, requires the accounting industry to levy a 7 percent tax on services rendered to clients. While clients engaged in taxable commercial activities will be entitled to claim a credit for tax paid on purchases of accounting services, others will be classified as tax-exempt and unable to claim input tax credits. In addition, the industry will face reporting and collection costs associated with the GST. On the other hand, some members will benefit by designing systems for clients to account for the tax and by offering consulting services to business on its implications.

Audit revenues are not increasing significantly, in part because of the major time savings and labour efficiencies gained by the application of new technology to audit engagements. As well, the market for audit services is relatively stable. For example, only 6 700 of the active 173 000 federally incorporated companies require a statutory audit under the provisions of the *Canada Business Corporations Act* (CBCA) and there is not a large number of new public or private firms emerging annually that meet the CBCA thresholds for a statutory audit. The growth sector for the industry will continue to be provision of tax and management advisory services to clients. Technological developments will afford the consulting side of the industry the opportunity to expand by offering clients a range of services to understand and effectively respond to their environment. The continuing demand for the majority of services offered by the profession will enable it to weather the weak demand conditions typical of the economy at the time of writing.

With the globalization of industry, the increasing role of the multinational corporation and the increasing international dealings on the part of a wide range of businesses and investors, there is a growing need to be served in one common accounting language. As a result, the accounting environment of the 1990s will continue the movement toward internationally accepted standards.

The FTA permits Canadian accountants temporary entry into the United States to engage in business activities at a professional level. It has opened the market for the consulting side of the profession, both in terms of advising domestic clients on FTA opportunities and for the transborder movement of professionals themselves to conduct this aspect of their business. The FTA will not, however, have a significant impact on the audit and review functions. The temporary entry provision does not override the accountant's need to meet any local licensing, certification or other prescribed requirements of the regulated aspects of the profession.

The accounting profession has not moved, and will not be likely to move for some time, toward concluding a sectoral annex to the FTA relating to the mutual recognition of professional standards and criteria for the licensing and conduct of accountants and the provision of public accounting services. Resolution of differing domestic public practice rights and the lack of reciprocity between state CPA licensing bodies are issues that will have to be addressed before transborder mobility in regulated accounting services can be effectively achieved.

Competitiveness Assessment

At the present time, there is no foreign competition facing domestic providers of financial audit and review services. International affiliations, the required knowledge of local business and tax laws as well as licensing and regulatory requirements generally preclude foreign practitioners from offering anything but the non-regulated general accounting and management advisory services. These factors have also restricted Canadian practitioners from addressing the export market in a significant way.

While many believe a unified profession — that is, uniform recognition of the CA, CGA and CMA designations — is an achievable goal, movement toward that objective will be hampered by disagreements among the designating bodies and may be dependent upon forces shaping multilateral trading practices that are external to the profession.

For further information concerning the subject matter contained in this profile, contact

Service and Construction Industries Branch
Industry, Science and Technology Canada
Attention: Public Accounting
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-2948
Fax: (613) 954-3107

FINANCIAL STATISTICS[a]

Firm name and type	1989 Estimated revenue ($ thousands)	Number of large companies audited[b]	Revenue split[c] (%)
Chartered Accountants			
Peat Marwick Thorne	487 000	236	59/16/25
Deloitte & Touche	395 000	176	62/16/22
Ernst & Young	260 000	137	N/A
Coopers & Lybrand	200 000	133	N/A
Price Waterhouse	192 000	118	58/16/26
Doane Raymond Associates	155 000	33	66/12/22
BDO Ward Mallette	116 000	1	57/25/18
Arthur Andersen & Co.	90 000	33	N/A
Collins Barrow Maheu Noiseux	84 000	21	68/12/20
Dunwoody & Company	64 000	13	69/14/17
Certified General Accountants			
Evancic Perrault Robertson	12 000	0	69/11/20
Porter Hétu	7 000	0	64/27/09

[a] *The Bottom Line*, April 1990, page 3. Revenue figures have been rounded.

[b] As calculated by the Globe and Mail's *Report on Business Magazine: The Top 1000 Companies*, (June 1990).

[c] Distribution of revenue according to the following categories: accounting and auditing; taxation; all other services including management consulting and insolvency. Figures are not totally comparable between firms due to absence of uniform definitions.

N/A: not available

MAJOR FIRMS

Firm name and type	International affiliation
Chartered Accountants	
Arthur Andersen & Co.	Arthur Andersen & Co.
BDO Ward Mallette	BDO Binder
Collins Barrow Maheu Noiseux	Moores Rowland International
Coopers & Lybrand	Coopers & Lybrand
Deloitte & Touche	Deloitte, Ross, Tohmatsu
Doane Raymond Associates	Grant Thornton International
Dunwoody & Company	Dunwoody Robson McGladrey & Pullen
Ernst & Young	Ernst & Young
Peat Marwick Thorne	Klynveld Peat Marwick Goerdeler
Price Waterhouse	Price Waterhouse
Certified General Accountants	
Evancic Perrault Robertson	none
Porter Hétu	none
Certified Management Accountants	
Chamberlain, Broten, Orr & Co.	none

INDUSTRY ASSOCIATIONS

The Canadian Institute of Chartered Accountants
150 Bloor Street West
TORONTO, Ontario
M5S 2Y2
Tel.: (416) 962-1242
Fax: (416) 962-3375

Certified General Accountants' Association of Canada
Suite 740, 1176 West Georgia Street
VANCOUVER, British Columbia
V6E 4A2
Tel.: (604) 669-3555

The Society of Management Accountants of Canada
P.O. Box 176, 154 Main Street East
HAMILTON, Ontario
L8N 3C3
Tel.: (416) 525-4100
Fax: (416) 525-4533

Printed on paper containing recycled fibres.