

The Governance of Professions – Notes for an Address

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Ladies and gentlemen, it is a pleasure to be at this conference today, and especially to participate in this panel, with such distinguished colleagues.

I'm also pleased to bring you greetings from the 68,000 members of the Canadian Institute of Chartered Accountants. Many of our members are keenly interested in governance issues: people such as Guylaine Saucier, Denis Desautels and our panel chair David Laidley; all of whom are participating in this conference.

Managing or governing a profession might be considered by some to be an oxymoron. I'm sure many of us remember when the governance of professions was a bit of a ho-hum thing. It didn't keep anyone awake at night, and it certainly wasn't on the media's radar screen. That was before Enron. Let me assure you, there have been many times since then when I wished those times were still with us!

My key message is how our governance system enabled us to steer our profession through changing times and a challenging crisis. It's also about how we worked together to set up a system that has served us well. Hopefully our experience will be useful to other professions, who also operate across many different jurisdictions.

Essentially, our governance enabled us, as a multi-jurisdictional organization with 14 governing bodies across Canada and in Bermuda, to speak with one voice and weather about the worst test that we've ever had. It also allowed us to reach decisions efficiently, and introduce a series of reforms to restore investor confidence. These include the independent Canadian Public Accountability Board, a national practice inspection system with public oversight, and enhanced oversight in setting accounting and assurance standards. And on an ongoing basis, it allows

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us to fulfill our responsibilities in protecting the public interest, and manage our profession day-to-day.

Set the Stage

Before I tell you what we did, let me talk about the context we had to work within in reforming our governance. This will give you an insight into the complexities involved.

Mainly, we had to be mindful of two things; firstly, our mandate to protect the public interest. This is a key objective of good governance and also of my profession. Secondly, we had to take into account the structure of our profession, not only to reform our governance, but to be able to introduce reforms to restore investor confidence.

Public Interest

The public interest was a key consideration because that's what chartered accountants do, they protect the public interest by contributing to the reliability of enterprises and the integrity of the capital markets; first, through their strong code of ethics, and second, through their assurance responsibilities.

Chartered accountants audit virtually all public companies and other large enterprises, and they have exclusive rights to conduct audits in some jurisdictions. Following the collapse of Enron and other scandals, public confidence was understandably shaken, and we took the lead to introduce a series of reforms to restore this confidence. When I say "we," I mean the entire chartered accountant profession; all 14 governing bodies.

Let me take practice inspection as one example of what we were up against.

Practice inspection had always been a provincial responsibility. Inspections were carried out by an experienced team at each provincial institute, but these inspections were not coordinated across the country. Unfortunately, this system did not fit the needs of a global economy. Nor did it serve the interests of the public, in a post-Enron world.

We also wanted to set up a system to inspect and discipline firms, not just individual chartered accountants. Not only this, but we had to do

it on a national basis, through inspections that would, for the first time, cross provincial boundaries and call for each provincial institute to share information on investigations.

While CICA has a concern about the privacy implications of practice-inspection reforms, we also have to protect the public interest by making whatever reforms are reasonable and appropriate.

Provincial Structure and Profession

These were not the only challenges we faced in reforming our inspection system for firms doing listed company audits.

Another challenge was our provincial structure itself. Because each of our provincial chartered accountant institutes are sovereign organizations and governed by the appropriate provincial legislation, any reforms had to be implemented in a manner that respected their sovereignty. Most importantly from a governance perspective, these institutes are led by Councils who are duly elected by members by secret ballot.

Effective Governance and Management — How We Did It

So we had our work cut out for us.

I'd like to go into a bit of detail about how these 14 bodies came together and achieved nation-wide reform. As I mentioned earlier, our experience may be helpful and instructive to other professions that also span several jurisdictions.

Basically, it was like putting one big puzzle together. We also had to be sure that we got the pieces in the right order, because if we didn't, the others wouldn't fit.

Also, where there's a will, there really is a way. I've always believed this. When I volunteered for CICA, I'd seen instances where we could work in a more coordinated fashion. After all, each chartered accountant sits down once a year and writes one cheque for member dues, not 14. As it turned out, the challenges of managing a diverse national profession were instrumental in my decision to join CICA.

Our governance reform was in its very early stages with a task force, which we'd set up to look at how our profession was organized. We

knew we had to make improvements and bring the profession together, but we hadn't really figured out how to do it. Then Enron hit, and we started to figure it out pretty quickly. We were able to take action, quickly and effectively, and work together with other stakeholders to bring about real change.

Obviously we couldn't fiddle with 14 pieces of legislation, no one would live long enough to do that! We decided that the best solution was to leave the legislative framework in place and operate in a collaborative, coordinated fashion. Almost like a virtual organization. CICA's role was to facilitate, not to control.

We started by holding a two-day-retreat with all the CEO's of the 14 chartered accountant institutes to figure out how to set up what we call "the management team of the profession." These CEO's, the Council of Senior Executives, became our management team. It was mandated to operate in a different way.

In the past, individual institutes basically managed themselves. They developed their own strategic plans, policies, branding, and public positions, and then coordinated them as much as possible across the country. Under the new management system, each institute would still have its role, but we would speak with one voice and present a common face to the public. We would work as a team on certain issues, such as developing a strategic plan, and we'd do it for the entire profession.

With the team in place, the question was: how does the governance of the provincial institutes, and their sovereign elected Councils, fit in?

We chose a model of governance characterized by four things:

- Separating the organization's 'ends' and 'means.'
- Having governing organizations, such as councils and boards, focus on the ends.
- Having management focus on the means.
- And keeping councils and boards completely independent of the management they oversee.

We call this a ‘CEO management + volunteer oversight’ model. (Some of you may have heard of, or even implemented, the Carver Model of Governance. Our model is not inconsistent with Carver’s principles.)

This model was vital to our coordination as a profession. The management team, that’s the Council of Senior Executives, could only operate if each of its members arrived at meetings, fully informed and authorized by their own governing councils to make decisions.

Operating in this way does not undermine the authority of the councils. In fact, it enhances their responsibilities, because they still have final authority over the end goals, as well as the boundaries within which each CEO can operate.

It’s also an advantage because it respects the time of our volunteers, who make up the membership of each council.

The upshot is, what we’ve created is not weaker, but stronger governance. In fact, it is state-of-the art governance in a post-Enron world.

Another question is: what is the relationship between separate sovereign councils and a single team of CEO’s managing the profession? This relationship begins at the individual councils, who discuss the issues and develop a range of acceptable alternatives. Then their CEO’s can meet with their peers, fully informed with their councils’ perspectives.

Periodic meetings are also required where senior volunteers themselves meet to discuss key issues together. In our case, we assemble the chairs, vice-chairs and CEO’s of all of the governing bodies approximately twice a year, and more frequently if we have to.

(When we were developing CPAB, we got to the point where we could get this group, which is upwards of 40 people, together for conference calls on less than 48 hours notice!)

Shifting to this model of CEO management and volunteer oversight may not be easy for some organizations, particularly organizations in the not-for-profit sector. In these instances, board members may have experience with volunteer-managed organizations, so initially they may not be as comfortable with the oversight approach. Our experience shows, however, that this model not only provides better oversight, but more interesting work and a better use of volunteers’ time. If, the Councils and Boards are not knee-deep in implementation issues, neither are committees. In fact, a volunteer-oversight model often leads to

a reduction in the number of committees; which is good news from any number of angles, especially when good volunteers are a sought-after commodity!

Results

So where do we stand today? What's been the result of all this governance work?

One big result is that we've been able to disband many of our traditional operational committees. This allows us to maximize our volunteers; which is a real plus. Volunteers can now address key issues; issues that are often inappropriate for management to be involved in. These include things like admission to the profession, or discipline. It also includes setting standards, such as rules of professional conduct for our members; and generally accepted accounting and auditing principles, for the larger public.

One of the challenges of managing and governing a multi-jurisdictional profession, particularly in this country, is the different size of the various jurisdictions. There are inevitably certain issues where some jurisdictions have far greater interest than others. For example, issues concerning public companies usually affect only the largest provinces, where such companies tend to be registered.

The challenge is to keep all jurisdictions informed and to ensure that their governing bodies have the opportunities they need to provide input along the way.

This raises perhaps the most critical issue we faced, building trust. Research that we commissioned into the governance of federations came up with many different models, and two clear messages.

First, there's no magic formula for the governance and management of a multi-jurisdictional federation or profession. What's important is finding a model that suits your purposes and adheres to the principles of good governance.

Second, all the research we did on federation governance says that any model will only succeed if there is trust. If you don't have trust, you may as well go home. Accordingly, our Council of Senior Executives and the councils of all of our governing bodies strive to operate, as much as possible, by building consensus in an open atmosphere of mutual respect.

This means a lot of communication. For a multi-jurisdictional profession, I believe that building trusting relationships can significantly compensate for what would otherwise be inequities in the size and relative influence of the various jurisdictions.

There was one final piece of the governance puzzle that we had to put into place. The CEO's of all of our governing bodies were clearly accountable to the provincial councils they reported to; however, when those same CEO's acted collectively as the management of the profession, there was nothing in place to oversee their efforts.

So we set up a committee, again mindful of the different jurisdictions within the profession. The committee was made up of the CICA chair and vice-chair, as well as a provincial council chair from each of the four geographic regions, the Atlantic region, Quebec, Ontario and Western Canada. This group in turn invited feedback from each jurisdiction during its deliberations, which helped to build trust. The result was a proposal to revamp the CICA Board of Directors, and structure it so that it will be able to oversee CICA management, as well as the activities of Council of Senior Executives.

To sum up then, these are the steps we took to set up a coordinated, collaborative governance and management model for the CA profession. This model served us well in dealing with a major crisis like Enron, and it enabled us to tackle complex issues, quickly and effectively.

Maintaining the Health of the Profession

This governance model also enabled us to preserve what I'd call the health of our profession. The collapse of Arthur Andersen was unprecedented. It gave us a brand new grasp of just how quickly well-established, even iconic, organizations can collapse when public confidence and trust are lost.

For individual members of our profession, the demand for stronger governance has been both good news and bad news. On the good news front, governance is now in the spotlight, where it rightly belongs. This places the members of our profession in a stronger position to carry out their role, particularly as auditors.

On the other hand, the new reforms, such as SOX, place added stress on our members, and the members of many professions.

Accordingly, we've introduced new programs to support them, such as broad training programs and guidance for audit committees.

Our Risk Management and Governance Board also stepped up to the plate with a number of publications. These include a corporate governance guide called "Integrity in the Spotlight." When it was issued, 5000 copies sold almost right away. We also produced a series of publications called "20 Questions," which focuses on various issues that contribute to good corporate governance. And we've just released a series of CEO and CFO certification guidelines.

Through the work of this Board, CICA and the Canadian profession are now recognized authorities on governance issues. It also gives us a unique opportunity to practise what we preach!

Conclusion

Our experience has underlined the importance of strong governance, not only for our profession but for all our stakeholders, including the public. We learned that reconciling the interests and positions of many different jurisdictions under one roof is undoubtedly complex, but that it can be done. It takes teamwork, cooperation, and communication, all of which builds trust. If we can succeed in fostering trust, then we've come a long way to restoring confidence in all our institutions, be they professions, companies or countries.