

# Nortel drops auditors Deloitte & Touché

## 'Signaling a change'

Duncan Mavin and Carrie Tait, Financial Post

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Financial services giant Deloitte & Touché LLP was ousted as auditor of Nortel Networks Corp. yesterday after several years of accounting problems at the troubled telecom company.

Nortel said the decision to replace Deloitte with rival KMPG LLP "does not result from any disagreement or dissatisfaction" with the firm that has been Nortel's auditor throughout its recent financial problems.

Yet some audit-industry observers said the move shows Nortel is trying to distance itself from its recent financial troubles, which have led to three financial statement restatements in three years and have forced a complete overhaul of senior management at the Brampton, Ont.-based company.

"Deloitte was the auditor during the fiasco, and basically Nortel is signaling a change and moving away from the entire thing," said Ramy Elitzur, Kernaghan professor in financial analysis at the Rotman School of Management, University of Toronto.

"They are sending a signal to the market: 'We are getting better, we are changing things. One of the things we are changing is Deloitte,' " Prof. Elitzur said.

**"As a rule of thumb, changing an auditor is not a good sign," said Anthony Scilipoti, executive vice-president at Veritas Investment Research.**

"It usually results from a disagreement regarding a particular accounting treatment. But in this case, given the past three years of accounting turmoil, it could just be for a need for change."

Jay Barta, a spokesman for Nortel, declined to make any further comment.

Deloitte is one of the Big Four auditors that dominate the profession around the world.

The auditor's role is to provide an opinion on the material accuracy of a company's financial statements. Some observers had questioned how the auditor was able to hold on to the Nortel account when several senior executives, including chief executive Frank Dunn, lost their jobs.

During the period when the company was restating its books, Nortel paid the auditors \$57-million in 2004 and \$72.7-million in 2003 -- the largest fees in those years for audit, tax and related services paid by any Canadian company.

Deloitte was believed to have dispatched as many as 150 staff to work on the Nortel account in recent years in its efforts to produce a clean set of financial statements.

Deloitte was unavailable for comment.

**Veritas' Mr. Scilipoti said he was surprised Nortel had not replaced Deloitte earlier.**

However, now that the decision to bring KPMG in as Nortel's new auditor has been made, it could lead to further restatements at the telecom-equipment maker, he said.

"It will be interesting, now that a new set of eyes is looking at it, there may be a new set of assumptions," he said.

A spokesman for KPMG declined to comment on its appointment, which is still subject to approval by the company's shareholders at its next annual shareholder meeting.

dmavin@nationalpost.com

NORTEL NETWORKS CORP.

Ticker: NT/TSX

Close: \$23.82, down 39 cents

Volume: 1,242M671

Avg. 6-month vol.: 1,227,434

Rank in FP500: 24

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