



# THE PRACTITIONER'S VIEW

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## TECHNICIAN TRAINING PROGRAM – UPDATE

The last newsletter

referred to a technician training program, offered through the B.C. Institute via the internet, for non-CA students who are employed by practicing firms.

At the time, one individual in Nova Scotia was taking a course on a pilot basis, with our Institute Council awaiting the results, prior to approving the program here. Apparently, the only downside was sitting the course exam at 5:00 pm Pacific Time – the four hour time difference (in the wrong direction) was a killer! This aside, the program has been approved and enrollments will be accepted for the next cycle, commencing in September 2000. A summary of the program is enclosed and a complete package of information is available by contacting Wenda Bennett, at the Institute.

## PROFESSIONAL LIABILITY INSURANCE – WHO NEEDS IT?

Once again it's time for the annual declaration of insurance coverage. Since forms for the declaration are enclosed in this mailing, it seems to be an appropriate time to review the requirements.

Mandatory professional liability insurance (PLI) for members who **practice public accounting**\* serves a dual purpose - one is to protect the public interest in the event of an error on the part of a member and the other is, of course, to protect the member from possible financial disaster in the case of such an error. The by-law that requires members in public practice to maintain PLI is contained in Section 68 of the member's handbook. If you are contemplating entering (or leaving) public practice, and have not read the by-law recently, you should take a few minutes to do so now. Many members are surprised to learn that they are not exempt from carrying insurance.

The only relief that is currently provided for in the by-laws applies if:

- a member does not engage in audits or reviews **and** has annual gross fee revenue of less than \$15,000 per annum.

This exemption must be applied for upon entering public practice and annually thereafter.

There is **no** exemption for members who engage in audits or reviews of not-for-profit organizations, regardless of whether the member receives compensation for such services.

Further, **you are required to maintain insurance for a period of six years after ceasing to practice public accounting.** This insurance is intended to provide coverage for claims that may arise out of services performed while a member was practicing, but are not discovered and reported until some later point, after a member has ceased to practice. Although such coverage is mandatory, the premiums for this type of insurance decline over the six year period.

There are consequences associated with failing to maintain PLI and file the appropriate declarations, namely, suspension from membership or the reporting of the member's failure to comply with the bylaws to the Professional Conduct Committee. The consequences recognize the importance of our duty as a self-regulating profession to protect the public interest. At the same time, as noted previously, it is simply prudent business practice for members to reduce their exposure by ensuring they have adequate insurance in place.

\*If your activities do not fall under the definition of the **practice of public accounting** (e.g. management consulting), you will of course not be required to carry professional liability insurance. For clarification, you may wish to review this definition in the member's handbook, bylaws - Section 2(1).

If you have any questions on this topic, please contact Wenda Bennett, Director of Professional Services at the Institute by telephone, facsimile or email(wbennett@icans.ns.ca)

## UNPAID FEES – A CLIENT'S ENTITLEMENT

(The following is reprinted from the ICABC Newsletter – Issue 2000/01)

The question often arises as to whether an accountant whose fees are not being paid satisfactorily is entitled to withhold reports and other work products until paid. The answer generally is yes, but it is not so in every case.

No accountant, indeed no professional, wants to be involved in a stand-off with a client over unpaid fees but inevitability it happens to everyone. It should be stressed that an accountant should think long and hard before suing a client a client for fees because

bringing such a claim invites counterclaims and other problems.

### **The Engagement Agreement**

Hopefully, when a dispute over fees and entitlement to information arises, it will be covered by the accountant's engagement agreement. If so, the issue may be resolved with little dispute. However, the quality of engagement agreements varies drastically between different accountants. Some, unfortunately, do not use them at all. Those who operate without them, or without carefully considered agreements, often learn hard lessons about the need for them.

If an accountant has no engagement agreement at all, or if the agreement does not address the rights of the parties in the event of non-payment, those rights ultimately will be subject to interpretation by a court in light of industry standards, the nature of the relationship, the surrounding circumstances and the applicable legal principles. It is difficult to predict how those factors will be balanced in different situations and therefore it is advisable to provide for certainty through a well-drafted engagement agreement. Provisions which establish that the accountant maintains ownership in work product until it is paid for creates certainty and commercial fairness when a dispute arises. Incidentally, such provisions also have the advantage of putting the accountant in the strong position to ensure fees are paid once a dispute arises. The balance of this article addresses those circumstances in which there is no agreement in place to cover the fee dispute when it arises.

change has considerable appeal to provincial governments, primarily as it allows a province to set different tax policies than the federal government. In Nova Scotia's situation, this week's Federal Budget's reduction in federal income taxes would have forced the province to increase tax rates to maintain its current tax revenues. The Minister has announced his intention that Nova Scotians will pay "not a penny more or a penny less" in provincial income tax than the 1999 tax system would have required. Of course, the overall impact cannot be determined until the Provincial Budget is presented later this Spring.

While the timing of the announcement is fortunate for Nova Scotia's government, this change has been discussed nationally for quite some time, and it is expected that most provincial governments appear to favour this change. The Nova Scotia Institute has provided its qualified support for the Nova Scotia

government following the lead of the other jurisdictions. It also expressed its concern that the change in the tax basis not be used to justify unfair or inappropriate allocations of the tax burden and that there is an urgent need to ensure that Nova Scotia's taxation system is competitive with other Atlantic provinces and the rest of Canada.

The Institute has noted the adequate and appropriate advance communication of the changes as it will undoubtedly cause disruption to our members who prepare tax returns. Tax software vendors will need sufficient time to amend their products and there will be disruption to our members who prepare tax returns on behalf of their clients and employers.

### **UPDATE ON CIVIL PENALTIES**

As announced in the last issue of *Practitioners View*, the joint efforts of the CICA and the Canadian Bar Association has resulted in significant changes to the material initially proposed in the 1999-2000 Budget which are viewed as favourable to the CA profession.

Despite these changes, the Institute continues to believe that the ways and means motion is unfair and inappropriate, and should be withdrawn. All indications are, however, that further attempts to intercede will be viewed as self-serving and will be unsuccessful.

Nova Scotia practitioners are quite rightly concerned about this issue, not only from the issue of the costly of defending against unjust penalties, but also the impact this legislation may have on their relationships with clients. Are CAs being placed in a potentially conflicting role which will result in CAs being far more conservative in assisting their clients in tax avoidance?

***What Can You Do About This? One thing to keep in mind is that the final legislation has not yet been prepared or introduced. As the legislation will not be retroactive, it will have no effect until passed.***

Many practitioners are considering the need to more clearly define their relationships and responsibilities with their clients by preparing engagement letters and/or representation letters, and developing checklists and other documentation to offer some defense against unfair penalties. While such documentation is always beneficial, it is time consuming and expensive, and it is not clear what success, if any, this type of step will have.

A copy of an article by Rob Spindler, CA who is Co-Chair of the CICA/CBA Joint Taxation Committee is attached for your information (see APPENDIX).

Once the legislation is introduced, there will be a better understanding of the guidelines which will be

established. It is likely that the CICA and Nova Scotia Institute will develop guidance and possible seminars to assist practitioners in avoiding civil penalties.

In the meantime, please let Bob Caswill, the Executive Director know if employees of the Customs and Revenue Agency make any inappropriate statements to you or your staff about this proposed legislation.

## ARE YOUR CLIENTS REPORTING MUTUAL FUND INCOME?

**Nick Grady** of *Equion*, who presented a seminar at this year's Practitioners Forum, would like to bring this matter to your attention. With the boom in mutual funds over the past decade, your client may hold funds in non-registered form. Many clients redeem units monthly to provide a steady stream of income but fail to understand that they must report their realized gains. Furthermore, your client may not know how to calculate the gain, especially with sporadic purchases, monthly withdrawals and reinvested distributions.

No reporting is filed with the Canada Customs and Revenue Agency nor is client tax information tracked or kept up-to-date. According to one fund company, it is up to the financial advisor to track these amounts for their clients. Nick also advises you to beware if you are basing your calculations on client statements. It is important to ask if they held funds with a previous dealer. When a client account moves, many fund companies reset the ACB.

If you need further information, feel free to contact Nick at [ngrady@equion.com](mailto:ngrady@equion.com).

## A LITTLE TAX SEASON HUMOUR (DOES SUCH A THING EXIST?)

At this time of year, reading the *CAMagazine* probably does not rate highly on your list of priorities. For a break, you may want to read the rather tongue-in-cheek article *A Taxing Season*, which appears in the March issue (pg 31).

In lighter reading:

- *How do you find a good tax accountant? Look for the one with a loophole named after him(her)!* –Readers Digest March 2000.
- In an article in the 26 February 2000 edition of the Daily News, it was reported that the most common activity for a millionaire was to visit a tax advisor! Where would this activity fit on your top 10 activities?

## POTENTIAL CHANGES TO FORM 20 ENGAGEMENTS

In the December issue, it was reported that The Barristers Society is considering recommendations made by the Estates and Trusts Task Force to extend the Trust Account regulations to lawyers acting as executors and in other related capacities. The proposed changes, if accepted, will require these funds to be handled in trust and therefore be covered by the Form 20.

Although it was initially intended that the changes would take effect from 1 July 2000, the Society has found it necessary to complete further study and the implementation date, if any, is not unknown.

## PROVIDING EFFECTIVE TRAINING TO YOUR STAFF

The Institute Council is presently considering the merits of offering a technician training program to non-CA students who are employed by practising firms in Nova Scotia.

The program, which is administered by the Institute of Chartered Accountants of British Columbia consists of six courses specifically geared to the practical work environment. For example, the Personal Tax Course revolves around the completion of T1 returns and the Review and Compilation Course involves the actual completion of the relevant working paper files. The courses are offered in a timetable which corresponds to the typical work schedule of a technician in a public accounting firm and, since they are 100% Internet based, Nova Scotia individuals can participate as easily as the BC participants.

Presently, one individual is taking a course on a pilot basis, and Council is requesting input from ASCA prior to making its decision. If approved, enrollments will be accepted for the next cycle, commencing in September 2000. Watch for further information!

## INSOLVENCY CONTINUING EDUCATION SEMINAR – 11 MAY 2000

Please note that the Canadian Insolvency Practitioners Association will be holding its Nova Scotia annual continuing education seminar series "The Insolvency Network" on 11 May 2000 at the World Trade & Convention Centre. Brochures and registration information is available by calling (416) 204-3242 or emailing to [mail@cip.ca](mailto:mail@cip.ca).

## ACCOUNTING DISCLOSURE AND ENGAGEMENT ISSUES

### **Reminder!! Y2K Concerns Continue**

Even though the big date has come and gone with barely a whimper for most Nova Scotia businesses, you should all be aware of the updated enhancements to AcG-10 which was released in

October which discussed the need for continued disclosure of the Year2000 issue even after 1 January 2000. AuG-23 also contains updated guidance to auditors.

The December 1999 Issue of Risk Alert identifies a number of other Y2K matters that should be considered. A copy can be found on the CICA Website at [www.cica.ca](http://www.cica.ca).

## RULES OF PROFESSIONAL CONDUCT NOW ON WEBSITE

The Institute's Act, By-laws, Rules of Professional Conduct, and Council Interpretations are now found on the Institute Website. For handy reference, you may wish to save the following as a bookmark: [www.icans.ns.ca/WhoWeAre/ActBylawsRules/index.html](http://www.icans.ns.ca/WhoWeAre/ActBylawsRules/index.html).

Please note that unless you manually update it, your red handbook copy will rapidly become outdated and superceded. For this reason, you may wish to discard the red handbook binder now and rely on the website version.

Printed copies (on standard 8½ by 11 paper) are available from the Institute on request.

## STATEMENT OF CASH FLOWS

(The following is reprinted from the ICABC News 'N Views – Issue 2000/01)

The new Statement of Cash Flows, CICA Handbook section 1540, is effective for fiscal years beginning on or after August 1998. Accordingly, we in practice review are now starting to see the "new" statements in our reviews. We offer the following observations/comments about implementation of the new standard.

This new statement is not just a change in the title.

Some of the most often misunderstood or misapplied new changes are:

- Bank borrowings and loans would not normally form part of the 'cash' total. CICA Handbook section 1540.06 (definitions) says
  - a) **Cash** comprises cash on hand and demand deposits.
  - b) **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.and section 1540.10 says
  - .10 Bank borrowings are generally considered to be financing activities. However, in some cases, bank overdrafts which are repayable on demand form an integral part of an

*enterprise's cash management. Bank overdrafts may be included as a component of cash and cash equivalents when the bank balance fluctuates frequently from being positive to overdrawn.*

Based on this, bank loans generally should not be included in "cash" in the new statement.

- Assets acquired via financing rather than cash outlay would not form part of the current cash flows, and therefore would not be shown on the statement. Section 1540.18 says "...Examples of cash flows arising from investing activities are: (a) cash payments to acquire capital assets..."

For instance, an investment \$22,000 in capital asset additions not yet paid for would not be reported on the Cash Flow Statement. It would be inappropriate to disclose an investing activity, and a related financing or operating activity under either the "direct" or "indirect" method. An example clearly demonstrating this is included in the appendix to section 1540.

- There appears to be considerable confusion about the differences between the "direct" and "indirect" methods. The differences are only in the method of disclosing the cash flows from operating activities. CICA Handbook Section 1540.20 says "*An enterprise should report cash flows from operating activities using either the direct method or indirect method.*" Investing and financing activities are disclosed the same under either method.

The Handbook goes on to clarify in paragraph 1540.47 "*The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do not involve cash flows in the current period. Examples of non-cash transactions are:*

- (a) *the acquisition of assets by assuming directly related liabilities;*
- (b) *the acquisition of assets by means of capital lease.*"

- Another point to consider is whether the direct or indirect method (both of which are acceptable) should be utilized for a particular client, or perhaps for all clients of the firm. Many practitioners are using the indirect method (which appears to be similar to the former standard) as the "path of least resistance". However, practitioners using the direct method say it is a more "user friendly" statement for clients, so consider trying it out.

For some companies, a statement of cash flows may not be necessary. CICA Handbook section 1540.03 states "*A cash flow statement should be presented as an integral part of the financial statements for each period for which financial statements are presented, unless the reporting enterprise is not a public*

*enterprise and the required cash flow information is readily apparent from the other financial statements or is adequately disclosed in the notes to the financial statements. When a cash flow statement is not presented, the reason should be disclosed.”*

The following excerpt is from an article published by the Quebec practice inspection department. It provides some guidance on when it may be possible to replace the statement of cash flows with enhanced note disclosure. The article says “It is clear from the above recommendation that private corporations are not always required to prepare a cash-flow statement. Consider the relevant information generally contained in the cash-flow statement.

- Cash and cash equivalents, i.e. cash and certain highly liquid short-term investments. This information is usually disclosed in the balance sheet and/or in the notes to the financial statements.
- Operating activities, i.e. the section of the statement which presents net income, amortization, etc. In general, when material, this information is disclosed in the income statement, in the appendices referred to in the income statement or in the notes to the financial statements.
- Investing activities, such as acquisitions and disposals of capital assets. This information is not necessarily presented as such in these notes or any other statements... the amount thereof could be presented separately....
- Financing activities, such as dividends paid, new long-term loans, long-term loan repayments, etc. Usually, all of this information can easily be found in the financial statements, except for the original amount of long-term loans taken out during the period since the note generally mentions only the balance due. But by adding the phrase “loan originally taken out in the amount of \$X” for the first year of each loan, the problem is solved as it becomes possible to determine the amounts borrowed and the amounts repaid.”

So, if the information is “readily apparent”, then a note as to the reason for non-inclusion should be included in the financial statements. The Professional Engagement Manual (PEM) contains the following sample note: *“A statement of cash flows has not been presented, as the required information is readily apparent from the other financial statements presented and the notes to the financial statements.”*

If you have any concerns or comments on any point raised in this article, please contact Wenda Bennett, CA, Director of Professional Standards.

## **SUGGESTIONS?**

If you have any suggestions about information you would like to see included in future issues, please feel free to contact Wenda Bennett, CA at the Institute [wbennett@icans.ns.ca](mailto:wbennett@icans.ns.ca).