



THE PRACTITIONER'S VIEW

Vol. 2, Issue 2
December 2000

CIVIL PENALTIES - FINALLY, A LITTLE GOOD NEWS

AICA Services Inc.,

provider of professional liability insurance coverage to the majority of CA firms, tells us that effective January 1, 2001, they will be making available **insurance coverage for civil penalties**. The new coverage will be a "rider" to existing policies and will provide indemnity protection to a maximum of \$100,000, with defence costs also covered to a maximum of \$100,000. Premiums for this coverage will likely be \$50 per CA in the firm.

The availability of this expanded coverage will be welcome news to members and firms. This new coverage will protect them from financial damage, as well as the considerable costs of resisting an "inappropriate" application of the provisions. AICA Services Inc. will very shortly be providing information to firms insured with them.

NOVA SCOTIA BARRISTERS' SOCIETY - TRUST ACCOUNTS MANUAL

The Nova Scotia Barristers' Society's Trust Accounts (TAC) Manual is a detailed guide to lawyers' trust accounting in Nova Scotia. The Manual takes the reader through the relevant provisions in the Barristers and Solicitors Act and Regulations. It also guides members, their bookkeepers and accountants through all aspects of the trust accounting process, and provides samples of relevant documents.

In 2001, the Trust Accounts Manual will be available, in its entirety and including links to valuable resource materials, on the NSBS website at www.nsbs.ns.ca. Any new changes or additions will be regularly incorporated into the TAC Manual Online to ensure its currency.

The Society has a limited supply of TAC Manual binders and tabs that may be purchased for \$15.00 plus HST. These binders are terrific organizers for downloaded copies of the Manual. To order, please contact the Publications Administrator: Tel: (902)422-1491; Fax:(902) 429-4869; or Email: tharlow@mail.nsbs.ns.ca.

SOFTWARE FOR NPO CLIENTS

The November 2000 issue of the Journal of Accountancy included an article titled "*Sizing Up NPO Software*". The article identified the strengths and weaknesses of the 10 leading US products but also reviewed the key considerations in choosing specific software. Issues discussed include:

- Adapting conventional software
- Accommodating multiple self-balancing funds
- Meeting accounting and special reporting requirements
- Trade-offs to consider
- Features of various packages
- Comprehensive evaluations

Practitioners who are interested in reading this article can log on at www.aicpa.org.

ELDERCARE

The Institute has received enquiries recently for information regarding the CICA's *Eldercare* program. If you are interested in starting an ElderCare practice, CICA has published "*A Guide to Developing an ElderCare Practice*" as well as marketing material for you to use.

The AICPA website also contains useful reference material which may be accessed at www.aicpa.org under *CPA ElderCare Services*.

As well, **Barry Walker**, CA, an Alberta practitioner, has recently attended a week-long course offered in the US and is willing to respond to any inquiries by our members regarding the pros and cons of starting such a practice. He may be reached at walkerb@petersonwalker.ab.ca.

PROFESSIONAL STANDARDS REVIEW 2000: FOCUS ON FINDINGS

As practice review winds down for another year, the following common deficiencies were noted:

Financial Statement Presentation

1. Non-disclosure of specified information regarding related party transactions (RPTs) as stated in the *CICA Handbook*; Section 3840.43. The existence of RPTs, the description of the relationship between the transacting parties and the measurement basis used for RPTs were the most common features not provided.
2. For financial instruments, the non-disclosure of the interest rate for current bank borrowings and credit risk

information; as provided for in *CICA Handbook*: Sections 3860.57 & .67.

3. Non-adherence to presentation recommendations for not-for-profit organizations as per *CICA Handbook*: Sections 4400-4460, specifically the income tax status of the organization, the purpose of each fund reported, the policy followed in accounting for contributions and restricted contributions and details of capital assets expensed or not recorded for small NPOs. Reference to these sections is highly recommended as the presentation features are varied.
4. Non-disclosure of specified information regarding cash flow statements (*CICA Handbook*; Section 1540.). A separate note is required to disclose interest and taxes paid; also, bank loans and advances are generally deemed not to be a cash equivalent as it appears to be more of a permanent type of financing activity. Changes in non-cash working capital balances under the indirect method should be provided in detail, usually through note disclosure.

A cash flow statement is required except where it would not provide additional useful information; if this is the case, it should be disclosed in the notes to the financial statements.

Audit Documentation

1. No documentation that the auditor had obtained a sufficient understanding of control systems in respect of significant account balances or classes of transactions (*CICA Handbook*; Sections 5025.56, .62). When a substantive audit approach is planned, the auditor must still obtain and document an understanding of the control environment and systems that collect, record and process data.
2. Not assessing Control Risk for a relevant financial statement assertion relating to significant account balances or classes of transactions. (*CICA Handbook*; Section 5210.10 & .14). A general overall assessment was done instead.
3. No written representation regarding management's awareness and disclosure of all facts related to illegal or possibly illegal acts. (*CICA Handbook*; Section 5136.21).
4. Inadequate documentation of substantive audit procedures performed with respect to:
 - review of commitments, subsequent events and contingencies (*CICA Handbook*; Section 6550.06).
 - revenue/sales, payroll and expenses, including evidence of tests of transactions.
 - analytical review of overall financial statement presentation upon substantial completion of the audit (*CICA Handbook*; Section 5310.23)

Review Engagement Documentation

1. No formal or very limited documentation of the knowledge of entity's business (*CICA Handbook*; Section 8100.15(ii)). Sample forms used to document these features can be obtained from the Professional Engagement Manual, published by the CICA.
2. Limited or insufficient documentation of the plausibility assessment of the client's cut-off procedures. The initialing of pre-printed generic checklist procedures with no comments specific to the client activity being reviewed is considered to be insufficient. Adequate documentation would include a description of procedures followed by the client to ensure proper cut-off, a conclusion on their adequacy and, if deemed necessary, details of any additional review procedures required to assess plausibility of the statements. Documentation of discussions with clients would include the name of the individual with whom the matters were discussed and the date of the discussions.
3. Inadequate documentation of the plausibility assessment of various assets shown on the balance sheet:
 - inventories of significant value, regarding quantity, value or obsolescence. Description of inventory count procedures should include more than just the date of the inventory count; matters such as who performed the count and any instructions given to the count staff should be noted.
 - allowance for doubtful accounts
 - propriety of development costs being capitalized
4. Inadequate evidence of analytical procedures being done, including inter-relationship of revenues, expenses, gross margin, operating ratios and balance sheet items. **The lack of documentation of analytical review is considered to be a serious deficiency and is the most common reason for a recommendation for re-inspection.** In documenting analytical review, the practitioner should focus on key financial statement items or aspects of the client's business and ensure that checklists, where used, are supplemented by further appropriate documentation. Even if there are no unusual amounts, variances or trends, a comment on the reasonableness of key items should be included on the checklist or referenced to a specific working paper, to evidence that the practitioner gave such items due consideration.

Being aware of and addressing these common deficiencies, where necessary, will contribute toward favorable practice review results and lower costs.

Some of the findings, especially those related to analytical review and cut-off documentation, have been repeatedly brought to practitioners' attention. While the primary emphasis of the program is educational, it must be stressed

that the committee, in determining a recommendation, would view continued non-adherence to key requirements of the CICA Handbook seriously.

CICA HANDBOOK

Although it has been mentioned recently in several CICA publications, the information bears repeating. The Internet-based version of the *CICA Handbook* is the "official" one – it's updated monthly, like the version on the *Virtual Professional Library* CD-ROM. The **paper version** is updated once a quarter with the material added to the electronic versions in the previous three months.

NEW RESEARCH STUDIES

As noted in the December issue of Risk Alert, published by the CICA, new research studies have been released. Two that may be of particular interest to practitioner's are:

- Use of specialists in assurance engagements, and
- Audit enquiry: Seeking more reliable evidence from audit enquiry.

CICA RELEASES NEW GUIDANCE ON CONFLICT OF INTEREST

The CICA has released a report of its Conflict of Interest Task Force.

The report recommends that provincial institutes adopt improvements to the profession's rules of conduct to specifically address business realities concerning confidential client information and conflicts of interest.

As public accounting firms expand in size, they are more frequently encountering situations where the interest of one client conflicts with the interest of another client, or where a firm itself has conflicting interests with respect to a client.

The Task Force report clarifies the fiduciary duties Chartered Accountants owe to their clients and identifies the various types of conflicting client interests.

It also outlines a process that CAs can follow to identify and address conflicts or potential conflicts.

In some cases, this may mean declining a potential engagement because the conflict with an existing client cannot be managed.

Finally, the report makes recommendations for changes to provincial institutes rules of professional conduct to codify the professional standards for dealing with conflicts of interest and limiting the disclosure of confidential information within firms.

The Conflict of Interest Task Force was formed under the auspices of the CICA's Public Interest and Integrity Committee, in response to the Supreme Court of Canada's statements. It has stated that it is for the professions, not the courts, to study this matter and determine if there are institutional guarantees that will maintain confidence in the integrity of the profession.

The objective of the task force is to ensure that the public interest is protected when actual or perceived conflicts arise in relations between Chartered Accountants and their clients.

A copy of the Conflict of Interest Task Force report can be found at www.cica.ca.

HIRING CO-OP STUDENTS

Practices that are approved to train students may not be aware that having a co-op student on staff may impact their student training designation. If the student decides at a later date to enter the CA program, they may receive credit towards their work experience with the firm that employed them during their co-op term. This is possible only if the firm has not already hired the maximum number of students allowed under the designation. The co-op student can still be employed but would not be able to count their work term. Where this is an issue, co-op students should be made aware of the situation prior to accepting the placement.

The other side of the coin occurs in filling the last space in the training designation by hiring a co-op student; this leaves no room to hire a full time employee.

The Co-op program has been in place for several years and has worked well for both firms and students; in no way should it be jeopardized. If a potential problem arises, please contact either **Wenda Bennett** at the Institute or **Terry Arthur** at ASCA.

MANAGEMENT RECOMMENDATION LETTER – AUDIT ENGAGEMENTS

(The following is reprinted from ICAA Monthly Statement – June 2000)

CICA Handbook section 5750 (Communication of matters identified during the financial statement audit), specifically .07, states that for fiscal years ended August 1998 or thereafter:

“When communicating matters that have been identified during the financial statement audit, the auditor should indicate that the communication is a by-product of the financial statement audit, and therefore is a derivative communication, and that the audit would not usually identify all matters that may be of interest to management in discharging its responsibilities. The communication should

also indicate that it is prepared solely for the information of management and is not intended for any other purpose.”

Accordingly, the following statements should be made in the management recommendation letter:

1. Comments made in the letter are matters identified during the audit; their discovery was not the primary purpose of the audit.
2. An audit would not identify all such matters.
3. The letter is:(a) prepared solely for management; (b) not intended for any other purpose.

CICA Handbook section 5750.08 provides sample wording for such a communication:

“During the course of my audit of _____ for the year ended _____, I identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities.

Accordingly, an audit would not usually identify all such matters.

The matters identified were...

This communication is prepared solely for the information of management and is not intended for any other purpose. I accept no responsibility to a third party who uses this communication.”

Management recommendation letters should be prepared accordingly.

MAKING IT – AS A CONSULTANT

As assurance work becomes a smaller percentage of the total services provided by those in public practice, consulting is a growth area for many practitioners. The September 2000 issue of the Journal of Accountancy contains a comprehensive article on developing this area of the practice. It notes that the overall key to success is strategic planning.

At a minimum, a consulting organization should have strategic plans for the following areas: business, marketing, recruitment, compensation, new staff training, new niche development and quality control.

It also identifies the most proven tools for standardizing your process around best practices:

- Prospective clients screening.
- Marketing message.
- Preparing for each consulting engagement.
- Consulting services delivery.
- Consulting fee estimates.

For further information on how to create a strategic plan, as well as overcoming barriers, visit the AICPA website at www.aicpa.org. (Journal of Accountancy).

2000 PRACTITIONERS FORUM – RECEIVES A PERFECT SCORE!

The 2000 Forum was again a tremendous success, with over 54 participants attending a full-day of sessions geared specifically to Nova Scotia practitioners. Based on evaluations handed in at the end of the session, 100% of the attendees found the Forum to meet their expectations, to be of practical value to them, and would recommend the forum to others. In the words of **David Yuill**, the Chair of the Practitioners’ Committee and organizer of the event, “We can’t get much better than 100%, can we? But we’ll try even harder next year!”

This year, the forum was held at the Keddy’s Inn in Truro, a change which met with the approval of those attending (while the Inn-on-the-Lake was a popular venue, it has unfortunately become just too small for the annual event).

Thanks to *Compass Document Solutions* and *AccPac International* for sponsoring the coffee breaks, as well as to the *Bank of Montreal* and *Aliant* who are the Institute’s Centennial event sponsors.

SMALL OFFICES RULE!

All Nova Scotia CAs should be proud of Kim Langille’s tremendous accomplishment of attaining the highest mark in all of Canada on the 2000 Uniform Final Examination. What should make it even more satisfying for small to medium sized practice offices is that Kim is a student in the Truro office of Grant Thornton LLP.

Moreover, smaller local offices (with only 1 or 2 UFE candidates) had an overall success rate of 69.2% that was actually higher than the overall Nova Scotia success rate of 64.1%. “There is a tendency to under-rate the ability of smaller offices outside Halifax to provide the training and experience expected for UFE candidates” observed **Bob Caswill**, ICANS’ Executive Director. “These results show that the Institute’s approval process does work and that all approved training offices provide suitable training environments for UFE candidates.”

SUGGESTIONS FOR THE NEXT ISSUE?

Contact **Wenda Bennett, CA** at the Institute wbennett@icans.ns.ca.