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# THE PRACTITIONER'S VIEW

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Vol. 6, Issue 2 December 2004

## NEW FRAUD AND ERROR STANDARDS – EFFECTIVE NOW!

Although commented on in previous issues of this newsletter, the importance of the new standards cannot be over stressed as this represents a significant extension of the auditor's role. The following article appeared in the September issue of News 'N Views, a publication of the Institute of Chartered Accountants of BC and is reprinted with the permission of ICABC.

### ***Auditors are now expected to perform some audit procedures with the sole intent of finding fraud and error***

Changes to Sections 5135 and 5090 of the CICA Handbook are effective **for periods ending on or after December 15, 2004**. An article "Detecting Fraud and Error" in the August issue of CA Magazine gives a good overview of the new standards ([http://www.camagazine.com/index.cfm/ci\\_id/22173/la\\_id/1.htm](http://www.camagazine.com/index.cfm/ci_id/22173/la_id/1.htm)). Further, the June 2004 issue of *Focus on PEM* has an excellent section on the new fraud and error standards.

Highlights of the changes include:

- An auditor can no longer say that an audit cannot be assumed to detect management fraud. The new standards require auditors to design the nature, extent and timing of their procedures to reduce to an acceptable level, the risk of not detecting a material misstatement in the financial statements due to fraud and error.
- The assumption of management's good faith is basically gone. The audit must now be executed with heightened professional skepticism, particularly when assessing representations from management and those charged with governance.
- The auditor must address management's ability to override internal controls. An area of extra focus will be an examination of journal entries, particularly as they may relate to transactions that would be otherwise be recorded through routine processing or to significant transactions outside the normal course of business.
- There is a specific requirement to address improper revenue recognition, particularly as it may possibly relate to earnings management. Indeed, Section 5135.060 says in part "... *the auditor ordinarily presumes there are risks of fraud in revenue recognition and considers which types of revenue, revenue transactions or assertions that may give rise to such risks.*"

The changes will have significant impact on the audit processes. The requirements relating to knowledge of a client's business have been ramped up, as the auditor must now understand:

- How management assesses the risk that financial statements may be misstated as a result of fraud.
- The nature of the fraud risk factors, including incentives or opportunities to commit fraud. Where identified, these factors should be reflected in planned audit procedures.
- Unusual or unexpected relationships that may indicate the risks of material misstatement due to fraud or error.
- Management's process for identifying and responding to fraud risks.

A significant feature of the new standards is the mandatory team engagement meeting, where members of the team discuss the susceptibility of the entity's financial statements to material misstatements resulting from fraud and error. It's important not only to hold this meeting annually but to prepare documentation for the year end file about the meeting, issues discussed, and conclusions reached.

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***Practitioner's View is a regular publication of the Institute of Chartered Accountants of Nova Scotia to inform and to serve members who are involved in public accounting in Nova Scotia.***

Some of the other changes to auditing procedures include:

- Increased emphasis on analytical procedures to identify unusual or unexpected relationships.
- Random or unexpected tests (perhaps changed timing) should be performed to ensure the internal controls are functioning as intended.
- Internal controls over journal entries and adjustments should always be examined. Journal entries and other adjustments should be tested.
- When testing errors are found (even if immaterial), the auditor should consider whether the error is an isolated event or indicative of suspicious or fraudulent activity.

CICA Handbook Section 5135 also includes three appendices, which are very extensive and should be required reading, as well as a handy reference for all professional staff:

- 1) Appendix A provides example of risk factors relating to the two types of fraud relevant to the auditor;
- 2) Appendix B provides examples of possible audit procedures to address the assessed risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets;
- 3) Appendix C provides examples of circumstances that indicate the possibility of fraud and error.

The most recent update (#34) to the Professional Engagement Manual (PEM) includes a completely revised section 4.7 dealing with fraud and error. It also includes updated and new sample forms, including a risk profile worksheet that could be used in audit planning meetings and a matrix to develop appropriate audit responses to identified risks.

## PRACTICE REVIEW DEFICIENCIES

Practice reviews carried out this year found several common areas of non-compliance with standards which are listed in **Appendix A**.

Practitioners who recognize some of these findings in their own firm have several resources available for guidance, in addition to the CICA Handbook:

- PEM model financial statements included in PEM - the 2004 edition issued in October reflects the major changes and new standards up to release No.29 of the *CICA Handbook – Accounting* and release No.19 of the *CICA Handbook - Assurance*. Sample presentation and note disclosure includes differential reporting, financial instruments, cash flows models, etc.
- Sample letters, forms, checklists – PEM and CaseWare are popular choices
- ICANS practice advisory – contact Wenda Bennett at [wbennett@icans.ns.ca](mailto:wbennett@icans.ns.ca)

### Keeping Current

If you don't have or aren't using the latest versions of PEM or CaseWare, chances are your engagement and representation letters are outdated and other forms and checklists do not include recent requirements.

In many cases, practitioners using CaseWare are purchasing updated copies of the program, but tend to roll forward the program from the previous year's file and don't take the trouble to ensure they download the latest update to the program and gain the advantage of using the same.

## DIFFERENTIAL REPORTING

### Common Mistakes

#### Consent letter

- Not addressed to management – some practitioners assume this is similar to a representation letter and address it to themselves;
- Not signed by all owners – names of all owners are listed on the same letter but only some have signed.

Who signs the consent letter when the entity is a subsidiary or the owners are a number of companies or trusts? If there is an owner that is a company, then the company should have a resolution, signed by all its shareholders, appointing a person to sign the letter consenting to the election (the resolutions should list the options that are acceptable and that must be in the election letter/agreement before the approved signatories may sign). The same principle would apply in the case of a trust. Either all trustees must sign or an agreement, signed by all trustees, appointing one or more trustees to sign on behalf of the trust should be prepared.

(This information was included in the course material on *Differential Reporting* offered by ICANS at PD week)

### Engagement and representation letters

- Options to be applied not listed.

### Misunderstanding the application of options

- In the first year of adoption, a "Change in Accounting Policy Note" is required;
- The accounting changes must be applied retroactively, with the exception of applications respecting goodwill (can only be applied prospectively)
- The election to treat retractable preferred shares as "equity" **only applies to shares issued as part of a tax reorganization.**

## **QUALITY CONTROL STANDARDS – ONE DATE, DIFFERING IMPACTS**

*The following article has been adapted and reprinted, with permission, from the BC Institute's News 'N Views September 2004 newsletter.*

The changes to the CICA Handbook relating to quality control (expansion of Section 5025 relating to the firm standard and new Section 5030 relating to engagement standards) published by the Auditing and Assurance Standards Board this summer both have December 1, 2005 effective dates but with differences. (The effective date for public companies that fall within the purview of the Canadian Public Accountability Board is January 1, 2005).

The Firm Standard becoming effective on December 1, 2005 means that each firm's systems of quality control as required by the standard has to be in place on that date. The Engagement Standard will apply to assurance engagements with respect to periods commencing on or after December 1, 2005.

The new standards require practitioners to have quality control at two levels for all assurance engagements: each firm is responsible for establishing an effective firm-wide system of quality control and each engagement team has to perform quality control procedures on individual assurance engagements. Firms should start early on developing and documenting the firm standard, which will necessarily precede the development of engagement specific standards.

Several practitioners have enquired about implementation guidance. PEM is developing practice aids for smaller firms and sole practitioners for release in the spring, possibly May 2005.

Further information regarding these standards was included in the November issue of *CA Magazine*.

[http://www.camagazine.com/index.cfm/ci\\_id/23456/la\\_id/1.htm](http://www.camagazine.com/index.cfm/ci_id/23456/la_id/1.htm)

## **WATER UTILITIES**

The Nova Scotia Utility and Review Board (UARB) is considering updates and amendments to its *Accounting and Reporting Handbook for Water Utilities*. This will include, among other matters, a review of issues, such as amending depreciation rates and depreciation of 'donated' assets.

The Board is providing municipalities, utility commissions, and utility consultants with an opportunity to identify any additional issues or information, which, in their opinion, should be included in the review.

Anyone wishing to provide material for consideration should do so not later than January 7, 2005. Questions regarding this matter should be directed to Heidi MacIntosh, P.Eng., Board Advisor at (902) 424-4448 or by email at [macinthj@gov.ns.ca](mailto:macinthj@gov.ns.ca).

## **INDEPENDENCE – REMINDER**

### **Documentation**

Practitioners are reminded that *Rule 204 - Independence* requires an analysis of each client, not just reviews and audits but notice to reader as well. There is now a requirement to document evidence of the independence assessment. This can be done by implementing the client retention and audit /review/compilation engagement independence checklists available in PEM.

### **Journal Entries/Bookkeeping Services**

Practitioners are also reminded of the new independence standards with respect to the preparation of journal entries and the requirement to obtain management approval. Booking journal entries, making account classifications and providing other bookkeeping services on behalf of the client are prohibited unless any

resulting self-review threat created is reduced to an acceptable level. Management approval must be obtained and should be documented in writing either as part of the representation letter or in a separate communication.

If you haven't already done so, consider updating your standard letter of representation for audits and reviews to the most recent version in PEM, which includes the following wording:

"We have reviewed and approved all of the following:

- journal entries you prepared or changed
- account codes you determined or changed
- transactions you classified
- accounting records you prepared or changed."

### **Confirmation Letter – New Wording**

At its November meeting, the Auditing and Assurance Standards Board (AASB) approved minor revisions to *Communications with Those Having Oversight Responsibility for the Financial Reporting Process*, paragraph 5751.29 and to the sample letter included in the Appendix.

These revisions were necessary, as the previous guidance required that the auditor confirm his or her independence in the context of the Rules of Professional Conduct/Code of Ethics of the provincial institutes/ordre that deal with the concept of independence in terms of objectivity. This guidance did not reflect the revisions to the Rules of Professional Conduct/Code of Ethics to deal explicitly with independence. The revisions approved by the AASB now reflect this change.

A mark-up of the revised paragraph 5751.29 and the revised sample letter may be accessed on the AASB's website at [www.cica.ca/letter](http://www.cica.ca/letter).

Another reminder – confirmation of independence applies to review engagements as well as audits. PEM includes a sample letter specifically for reviews; CaseWare provides a sample for audits, which can easily be modified for review engagements.

### **Need Help?**

Beyond the Rules of Professional Conduct, members will find related Council Interpretations provide invaluable guidance to assessing independence. *Appendices B and C* of this newsletter provides a cross-reference for some of the more common situations.

Practitioners may also contact Wenda Bennett at [wbennett@icans.ns.ca](mailto:wbennett@icans.ns.ca) to discuss independence concerns.

## **INDUSTRY PRACTICE - NO LONGER GAAP?**

In July 2003 the CICA released Section 1100 *Generally Accepted Accounting Principles* and Section 1400 *General Standards Of Financial Statement Presentation*. Section 1100 establishes standards for financial reporting and describes what constitutes Canadian generally accepted accounting principles and its sources. Section 1400 of the Handbook specifies that fair presentation of financial statements in accordance with GAAP is achieved by applying Section 1100 and by providing sufficient information in a manner that is clear and understandable.

At the time of its release it was anticipated that Section 1100 would have a significant impact on certain industries, as it effectively eliminated industry practice from GAAP.

### **Other Sources of GAAP**

Circumstances may arise which are not specifically dealt with in the primary sources of GAAP. GAAP encompasses broad principles and conventions as well as rules and procedures that determine accepted accounting practices at a particular time. It is necessary to refer to other sources when the primary sources do not deal with the circumstances.

An entity may prepare financial statements in accordance with industry conventions, or regulatory, legislative or contractual requirements. When those conventions or requirements are not consistent with the requirements of Section 1100, that basis cannot be described as being in accordance with GAAP and the public accountant must consider the implication to the audit or review report.

Industry practice may be relevant, but only in cases where it can be demonstrated to be in compliance with paragraph 1100.04, not by its general use within a particular industry.

### **Potential Non-GAAP Examples**

Practitioners with clients in particular industries should question whether the accounting treatments noted are appropriate:

Real estate industry

- Sinking fund depreciation

Mining and other Extractive Industries

- Capitalization to mining properties of depreciation during the exploration stage
- Depletion calculations based on an estimate of proven and unproven reserves, rather than just on proven reserves

All industries

- Revenue/expense recognition in accordance with the cash terms of the lease when there are step-up or inflationary increases which can be quantified on inception of the lease

## **CICA NEWS**

### **Risk Alert**

The annual issue of *Risk Alert*, a non-authoritative bulletin prepared by CICA's Auditing and Assurance Standards Department which provides an overview of significant current issues for practitioners, is now on the CICA website. Highlights of the current issue include articles on:

- Related party transactions - the common aspect to the various high-profile media reports of alleged corporate wrongdoing. This article takes a comprehensive view from both an accounting and assurance perspective;
- Auditor's report on non-GAAP financial statements – revisits Section 5600, providing indications that will assist the auditor in determining whether or not such statements are general purpose and how to report;
- New or revised accounting and assurance guidance – a refresher on guidance issued since the last issue of Risk Alert; and
- Upcoming significant accounting and assurance guidance.

Other topics include CEO and CFO certification of financial statements, management discussion and analysis, foreign reporting and practice review issues.

[http://www.cica.ca/multimedia/Download\\_Library/Standards/ASB/English/e\\_RA1004.pdf](http://www.cica.ca/multimedia/Download_Library/Standards/ASB/English/e_RA1004.pdf)

### **FYI – Special Edition 2004**

The special edition of FYI, summarizing pronouncements of the AcSB and EIC that should be considered in financial statement preparation for 2004 fiscal years has just been released and is posted at

[http://www.acsbcanada.org/multimedia/Download\\_Library/Standards/Accounting/English/e\\_SpecialEdition2004.pdf](http://www.acsbcanada.org/multimedia/Download_Library/Standards/Accounting/English/e_SpecialEdition2004.pdf)

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[http://www.cica.ca/index.cfm/ci\\_id/71/la\\_id/1.htm](http://www.cica.ca/index.cfm/ci_id/71/la_id/1.htm)

## **HOW AND WHEN CAN YOU RESIGN FROM AUDIT?**

*The following article appeared in the Autumn 2004 issue of Checkmark, a publication of the Institute of Chartered Accountants of Ontario and is reprinted with the permission of ICAO.*

Have you ever had a problem client that you just wanted to go away? Or found yourself in a situation that would necessitate the resignation of an engagement? There are a number of reasons why you may want to, or may have to, resign from an audit engagement. Some of these reasons may not materialize until you are well into an engagement while other times planning ahead would be advisable.

In paragraph 15 of the Council Interpretation to Rule of Professional Conduct 201.1 it is stated that an auditor should not voluntarily cease to act on behalf of a client after commencement of an audit engagement except for good and sufficient reason. These reasons may include the loss of trust in the client, a conflict of interest, an independence issue, or the inducement by the client to perform illegal, unjust or fraudulent acts. In such circumstances, immediate action may be required, but often not without obtaining legal advice first.

For other circumstances you would be well advised to plan ahead. Often, we find ourselves servicing clients who have poor payment practices or who we find uncooperative and even difficult to work with. You do have a choice here, but your timing is critical. Rule of Professional Conduct 201 deals with maintaining the reputation of the profession, which suggests that you treat others with dignity and respect. The ideal timing for your resignation would be once you have completed an engagement, and before you are reappointed for the upcoming year. Once appointed, it becomes more difficult to resign. You should be giving the client sufficient time to find a new accountant such that they are not put in a position where your resignation prevents them from meeting any significant filing deadlines. Furthermore, you should put your resignation in writing to ensure that the client clearly understands that he or she needs to find a new accountant. You may also need to check whether there are any statutory requirements that need to be met. As explained in paragraph 12 to the Council Interpretations to Rule 201, once appointed, the auditor should report and should otherwise only "cease to act on behalf of a client once a successor has been properly appointed and the auditor has been relieved or disqualified."

Your next consideration will likely be how you will respond to the communication from a potential successor accountant asking if there are any circumstances that may influence their decision to accept the engagement. For guidance, please refer to Rules of Professional Conduct 302 and 303. You are required to respond promptly to this request and must keep in mind the rules of confidentiality. As per Professional Rule of Conduct 302.3, you are required to inform the possible successor if "suspected fraud or other illegal activity by the client was a factor" in your resignation or in the client's request for your resignation. However, details cannot be disclosed without the consent of the client. In cases other than those to which Rule 302.3 applies, you may respond that there are circumstances that should be taken into consideration, but that they cannot be disclosed without the client's consent.

Although the focus of this article is on resigning from audits, you should apply similar considerations to a potential resignation from any client relationship where you are appointed as accountant.

## **CHRISTMAS GREETINGS!**

In the spirit of the season, we want to express our gratitude for your support of Practitioner's View since it was first published.

We certainly appreciate all the positive feedback you have given. More importantly, if you have ideas for how the newsletter can be improved, we need to hear that as well!

From everyone at ICANS, we wish all of you a very Merry Christmas and a Happy New Year!

## **SUGGESTIONS FOR THE NEXT ISSUE?**

Contact **Wenda Bennett, CA** at the Institute [wbennett@icans.ns.ca](mailto:wbennett@icans.ns.ca) or (902) 425-3291.



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## APPENDIX A

### COMMON PRACTICE REVIEW FINDINGS – 2004

#### FINANCIAL STATEMENT PRESENTATION

- Not-for-profit organizations - inadequate disclosure of revenue recognition, contributions receivable, capital assets, net investment in capital assets
- Differential reporting – inadequate disclosure regarding reconciliation of the income tax rate or expense to the statutory income tax rate or the dollar amount, fair value disclosure re financial assets and liabilities for which fair value is readily determinable
- Goodwill – inappropriate accounting treatment (can no longer be amortized), inadequate disclosure re impairment test (must be tested for impairment annually or apply differential reporting and disclose that impairment test not performed)
- Income taxes – inappropriate accounting treatment, “deferred taxes” are no longer an option (either “future income tax assets/liabilities” or apply differential reporting)
- Related party transactions – inadequate disclosure re transactions, nature of relationship, measurement basis used
- Callable debt – inadequate or inappropriate disclosure, not appropriately described or classified
- Financial instruments – inadequate disclosure of interest rate and authorized amount of line of credit, fair value
- Cash flow statement – inadequate disclosure of interest and taxes paid

#### AUDIT

The following areas were not well documented:

##### Audit planning

- Understanding of internal control – required regardless of audit approach and must be updated annually. Documentation may include a brief descriptive memo or be more extensive (narratives, flowcharts, questionnaires)
- Preliminary assessment of the components of audit risk
- Use of analysis to assist in designing the nature, extent and timing of other audit procedures – document and identify areas of concern at the planning stage; an unadjusted trial balance can highlight potential problem areas through ratio analysis and comparison of account balances with the previous year;
- Knowledge of entity's business
- Consideration of risk of material misstatements resulting from fraud and error

Documentation of audit planning procedures is required for audits of all sizes, including those where a 100% substantive audit is planned. The CICA Audit Technique Study, *Audit of a Small Business*, provides useful guidance for documentation of audit planning, risk assessment and internal control for small engagements.

##### Substantive audit procedures

- Subsequent events review
- Analytical review of financial statements – upon substantial completion of the audit, including balance sheet
- Revenue/sales, payroll and expenses – procedures performed, including test objectives, description and quantification of test, test results and conclusions

Completion of audit programs, or a list of audit procedures, with little else in the way of audit working papers to describe the details of those procedures, is not considered sufficient documentation.

Representation letters

The most common representations missing from representation letters included:

- Confirmation that management is not aware of any illegal or possibly illegal acts, or that all facts related to illegal or possible illegal acts have been disclosed
- Representations related to Section 5135 - The Auditor's Responsibility to Consider Fraud and Error — effective for periods ending on or after December 15, 2002. CICA 5135.51 requires that the auditor obtain representations from management:
  - 1) Acknowledging its responsibility for the implementation and operation of internal controls designed to prevent and detect fraud and error
  - 2) Stating that it believes that those uncorrected financial statement misstatements aggregated by the auditor are immaterial, both individually and in aggregate, to the financial statements as a whole. A summary of such items should be included in the body of or attached to the representation letter. In situations where the auditor has made all adjustments, this representation should still be obtained as there may have been immaterial differences that the auditor passed on adjusting without carrying them forward to a summary of unadjusted differences
  - 2) Stating that it has disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management and the results of its assessment of the risk that the financial statements may be misstated as a result of fraud

Other

- Communication with those having oversight responsibility for the financial reporting process – the auditor must communicate a summary of the audit approach to the audit committee or equivalent during the audit of not-for-profit organizations and other entities with public accountability (municipalities, etc) See sample letter – Appendix A, November 2004 issue of The Practitioner's View.

**REVIEW ENGAGEMENTS**

The following issues were of particular concern to the committee:

Enquiry, analytical procedures and discussion to establish plausibility

- Inter-relationship/comparison of revenues, expenses, gross margin, operating ratios and balance sheet items.  
The lack of documentation of an analytical review of the financial statements is considered to be a serious deficiency and often results in reinspection. Practitioners 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.
- Cut-off procedures - cash, sales, purchases/inventory and accounts payable.  
The checklist questions often ask that additional documentation be included in either the working papers (cross-referenced back to the checklist) or the comments column of the checklist itself. Typically, this 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(s) with whom the matters were discussed and the date of the discussions. Completion of only a checklist without additional comments is not considered to be sufficient documentation of enquiry, analytical procedures and discussion.
- Inventory - client's count procedures and valuation.  
As noted with respect to cut-off procedures, completion of checklists without additional documentation is not considered sufficient. Description of inventory count procedures should include more than just the date of the inventory count; matters such as count instructions, use of count tags, supervision, segregation of obsolete and slow-moving inventory and inventory on consignment should be noted. The client's basis of determining "cost" (FIFO, LIFO, specific item, etc.) should be documented.
- HST - plausibility of amounts.  
Consideration should be given to whether a copy of the year-end HST return is sufficient documentation, or, whether a reasonableness test for the entire period should be done. A recent court case found a CA firm at fault for not reviewing the reasonableness of HST.

## ASSESSING INDEPENDENCE

### RULE 204 AND RELATED COUNCIL INTERPRETATIONS\*

CI 204/3 Paragraphs	Prohibitions precluding firm from performing engagement	Examples
60-82	Financial interest in client	You or your professional staff can't own shares of your client
83-88	Loans and guarantees to/from client	Your client can't guarantee your bank debt
89-93	Close business relationships with client	You can't have a material investment if you and your client have a material interest in a joint venture (you can't do the assurance engagement for that client)
94-101	Family and personal relationships with client	You can't be on the engagement team if an immediate family member is an officer or director (or employee in certain situations)  See CI 204/1 for definitions of "immediate" and "close" family members
101-104	Future employment with client	A senior staff member of the engagement team is negotiating to join the client
110-112	Recent employment with client	If you hire someone who was an officer of an assurance client, that person can't participate on the engagement team to issue an assurance report for the period in which they were in a position to influence the financial statements or financial policies
113-116	Serving as officer, director or company secretary of client	You can't be a director on the client's Board
127-189	Provision of non-assurance services such as corporate finance or legal services that involve dispute resolution	Can't negotiate a loan for the client but you can assist in providing the facts to a lender
130-143	Performance of management functions for the client	You can't prepare invoices or sign cheques for the client
136	Making journal entries or accounting classifications without first obtaining management's approval	Need client approval of journal entries, either through review of them with client or approval in management representation letter
197	Acceptance of significant gifts or hospitality from client	Can't receive significant gifts – use the reasonable observer test (golf game with the client is OK)
192	Fee quote considerably less than market price for the engagement	Low-balling has been around for some time; professional standards cannot be compromised

The updated Rules of Professional Conduct and Council Interpretations can be found on the ICANS website at <http://www.icans.ns.ca/forthepublic.asp?cmPageID=102>. ICANS no longer prints a hard copy of the Member's Handbook.

## THREATS TO INDEPENDENCE

### RULE 204 AND RELATED COUNCIL INTERPRETATIONS\*

CI 204/3 Paragraph	Types of Threats	Examples	CI 204/3 Paragraph(s)
40	<b>Self-Interest</b> Firm/member could benefit from financial interest in assurance client	Unpaid fees from prior engagement Close business relationship Potential employment with assurance client	191 89-93 104
41	<b>Self-Review</b> Other services performed that impact the assurance engagement	Lending of staff Preparing original data or source documents Accounting and bookkeeping services Definition of "management decision"	132 137 140-143 130
42	<b>Advocacy Threat</b> Firm/member promotes or is perceived to promote client's position	Promoting shares or other securities of the client Acting as advocate in litigation or resolving dispute with third parties Assisting a client in obtaining bank financing Identifying or introducing a client to possible sources of capital	186 182 187 187
43	<b>Familiarity Threat</b> Long-term or close relationship with client and become too sympathetic to client's interest	Long association of senior staff with client Former partner is now client director, officer Close family member is director/officer Acceptance of gifts/hospitality	119 102-104 96 197
44	<b>Intimidation Threat</b> Engagement team face threats, actual or perceived from directors, officers or employees of the client	Client threatens to replace firm over disagreement Pressure to reduce work to reduce fees Threat of litigation	198 192 198

## SAFEGUARDS

There are three categories of safeguards:

- 1) Professional                      CI 204/3 paragraph 46
- 2) Within the entity                CI 204/3 paragraph 47
- 3) Within the firm                    CI 204/3 paragraphs 50-51

Practitioners have always employed safeguards. What is different now is a requirement to specify, document and justify "how" they work.

### Practitioners with Small or Owner-managed Clients (CI 204/3.52)

Due to size and structure of the firm and client, not all safeguards in paragraphs 47 - 51 will be available to the sole practitioner or small firm or within smaller clients such as owner-managed entities. Paragraph 52 provides guidance on this issue.

The updated Rules of Professional Conduct and Council Interpretations can be found on the ICANS website at <http://www.icans.ns.ca/forthepublic.asp?cmPageID=102>. ICANS no longer prints a hard copy of the Member's Handbook.