



THE PRACTITIONER'S VIEW

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STANDARDS OVERLOAD

Implementation Guidance for Practitioners

The following article was written by David Smith, FCA, President & CEO of the Canadian Institute of Chartered Accountants and is Chair of the Task Force to Assist Standard Setting

Today's rapidly shifting business environment has led to a change in and expansion of accounting, auditing and ethical standards. Because of such changes, many Canadian CAs are struggling to serve their clients and to keep up to date with the recent amendments to both the CICA Handbook and the Rules of Professional Conduct.

I was asked to chair a Task Force to consider this concern with standards overload. The Task Force was asked to develop recommendations to provide support for members in understanding and implementing new and emerging standards. We recruited members involved in the standard setting process, members from the provincial institutes who have direct contact with smaller firms and members from such smaller firms. The Task Force also conducted a survey of members in small and medium-sized firms. The survey gathered information on the methods and resources that these practitioners use to keep current with changing standards.

With this information, the Task Force considered ways to assist practitioners. The recommendations of the Task Force were included in a report submitted to the leadership of the profession at the end of last year and action is underway to implement these recommendations.

A key recommendation is that the need for implementation guidance should be determined at the outset of each accounting, assurance and ethics project. There is a wide range of materials that can be developed to assist members in understanding and implementing new standards. These include newsletter articles such as this one, templates or checklists to assist in the application of a standard, courses designed to provide in depth instruction on a specific standard. At the start of each project, standards staff, in consultation with representatives from the provincial institutes, will determine the nature and timing of the appropriate implementation guidance. The specific needs of financial statement preparers and small and medium-sized firms will be identified and addressed. This proactive approach means the implementation guidance will be available when the standards are to be implemented.

The member survey indicated that the Professional Engagement Manual is well received and widely used by practitioners in firms of all sizes. In light of this, the Task Force recommended that the content and timing of updates be reviewed to determine whether any changes are appropriate to make the manual even more relevant and useful to members. This review will consider, among other things, and the timing of updates, whether the contents should focus only on non-public companies and whether the manual should contain more checklists, practice aids or examples and the timing of updates.

The survey also indicated that while members use both provincial and CICA websites to keep up to date on standard changes many members were not aware of all the documents and information that were available. Therefore, the Task Force recommended a review of websites to determine whether change was appropriate. Members need to find what they need when they need it.

The Task Force report contained other recommendations designed to enhance communications and co-ordination between the CICA and the provincial institutes. This will ensure the most efficient use of combined resources to assist members in understanding and implementing new and emerging standards.

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.

In closing I would like to thank the members of the Task Force for their insight and hard work in developing these recommendations.

SEMINARS ON QUALITY CONTROL PROCEDURES FOR ASSURANCE ENGAGEMENTS

By Al Budlong, FCA, Director Professional Services, ICAA and ICAS, this article originally ran in CPE Focus of the Institute of Chartered Accountants of Alberta and has been edited for Nova Scotia.

The CICA Handbook Section GENERAL STANDARDS FOR FIRMS (GSF-QC) and 5030–Quality Control Procedures for Assurance Engagements requires that all CA firms that conduct audits must be in adherence to the new Handbook provisions by **December 1, 2005**. (Earlier for a CPAB registrant.)

Don't worry! Help is on the way!!!

Currently in production to help meet this deadline are the:

- a) Guidance and sample manuals for practitioners
- b) ICANS workshop presentations

a) Guidance and sample manuals for practitioners

CICA is currently developing guidance and sample manuals for practitioners to assist them in adherence to the provisions of the aforementioned CICA Handbook Sections. (Collectively referred to as the CICA Quality Assurance Manual) The professional material will be a supplement of the CICA Professional Engagement Manual (PEM) subscription. Publication of this document is scheduled for June 2005.

The PEM is an excellent resource publication and should be in a member's professional library. The Quality Assurance Manual will be of great assistance to firms.

b) ICANS Workshop

ICANS will be presenting seminars and materials to guide all practitioners through this process. The course material will utilize the Quality Assurance (QA) Manual and be presented in a workshop format. All participants will be required to read the supplement prior to attending the seminar. The intent is to have participants work on developing their firm QA manual at the workshop. To create the QA manual without the guidance material would be onerous.

The intent of these seminars is to:

- a) Provide guidance on creating their Quality Assurance Manual.
- b) Provide sample manuals to ease the process.
- c) Reduce the time commitment to produce the manual.

The material is intended to have 4 sample QA manuals:

- a) For sole practitioners – without staff and no public company audits.
- b) For sole practitioners – with staff and no public company audits.
- c) For multi partner firms – with no public company audits.
- d) For multi partner firms – with public company audits.

The member education workshops will have separate presentations for:

- a) Sole practitioners.
- b) Multi partner firms.

ICANS is pleased to provide this assistance and guidance for member firms not having the resources to create the level of documentation required by the new standards. Watch for the Quality Assurance Workshop flyer and registration form in early fall 2005.

ACCOUNTING STANDARDS IN CANADA – FUTURE DIRECTIONS

AcSB Invites Comment on Draft Strategic Plan

The Accounting Standards Board (AcSB) released its draft strategic plan, *Accounting Standards in Canada: Future Directions* for public comment on March 31. The draft plan proposes fundamental changes to Canadian GAAP, which would significantly impact the way financial reporting is carried on in Canada.

In March 2004, the AcSB began a review of its current strategies for setting Canadian accounting standards. A Discussion Paper was issued in May 2004, outlining the need for review and a request for public input, followed

up with a series of public roundtable discussions. A draft strategic plan has been developed and is now available for comment.

In formulating the proposed five-year strategic plan, the ACSB recognizes that “one size does not necessarily fit all” and that it is not possible to address the divergent needs of different categories of reporting entities properly within a single strategy. The Board concluded that separate strategies are needed to specifically address the particular needs of users of financial statements in various categories.

Highlights

Pursue separate strategies

Public companies

- Participate in the movement toward global convergence of accounting standards - converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a 5-year transitional period
- May continue to adopt US GAAP, where permitted by regulators and lawmakers
- Canadian GAAP for public companies will cease to exist as a separate distinct basis of financial reporting at the end of the transitional period
- Continue to work with international (ISAB) and US (FASB) accounting standards boards to ensure Canadian perspective considered
- Promote further convergence of ISAB and FASB standards

Private businesses

- Research users needs to determine most appropriate financial reporting model
- Clarify that GAAP requirements are intended to apply only to entities that have significant external users of financial information and require application of a common basis of financial reporting
- Take steps to limit scope of standards to above entities – exempt smaller private businesses that do not need GAAP financial statements
- Until research completed, maintain currently existing differential reporting alternatives; any additional alternatives will be developed through the current process

Not-for-profit organizations (NFPO)

- Consult with NFPO sector to determine appropriate strategy – whether to base accounting for all on standards for public companies, base accounting for some on standards for private businesses, exempt some from scope of accounting standards completely
- Continue to apply elements of GAAP for profit-oriented enterprises where applicable to the circumstances of NFPOs
- Continue to develop other standards dealing with the special circumstances of the NFPO sector

Maintain Canadian standard setting capability

- ACSB's role, structure and process would evolve to match proposed strategies
- Priority - reassess adequacy of resources

Address standards overload concerns

- Consider practical limitations on the ability of the financial reporting system to cope with change
- Communicate activities and seek input
- Provide adequate explanations for new requirements
- Provide reasonable period between issuance of requirements and mandatory effective date
- Introduce changes less frequently by “batching up”
- Develop implementation aids and training programs

Comments Requested

If adopted, the proposed strategies will require the development of more detailed implementation plans that are not included in the Invitation to Comment. At this time, the Board is looking for views on the general direction it proposes to adopt, as a basis for confirming or varying those proposals. Comments may be made on all aspects of the draft strategic plan including the additional background information and issues anticipated in applying the proposed strategies.

The Board is particularly interested in your views on the overall suitability of the proposed strategies, including:

- a) whether it is appropriate to apply different strategies to different major categories of reporting entities, rather than apply the same strategy to all;
- b) whether the strategy for each of the major categories of entities establishes an appropriate direction (creates an improvement in Canadian financial reporting, with benefits exceeding costs); and

- c) whether individual strategies and plan are operational (likely could be carried out as described within the proposed time frames without undue hardship)

The Board has explicitly invited comment on one particular issue regarding the approach to transition for *public companies*, described in paragraphs 45 – 46 of the plan:

- Whether to adopt a single-step change over or allow public companies to introduce changes at various times

The Invitation to Comment and other related information are available at: http://www.acsbcanada.org/index.cfm/ci_id/21832/la_id/1.htm

Comments are requested by July 31, 2005 and should be directed to Peter Martin, Director of Accounting Standards at ed.accounting@cica.ca.

ACCOUNTING STANDARDS BOARD ROUNDTABLE – MARK YOUR CALENDAR FOR JUNE 16

The Accounting Standards Board (AcSB) is following up its September 2004 meeting in Halifax with another roundtable discussion at the World Trade and Convention Center on the morning of June 16th to obtain feedback on its proposed strategies. Details of the meeting and on-line registration can be found on the AcSB's Web site, noted above (click on "meetings"). Pre-registration is preferred but no one will be turned away.

As Paul Cherry, Chair of the AcSB, commented in the CICA publication FYI (March 2005) "The proposals will steer the direction of Canadian GAAP certainly for the next five years, but the implications will likely endure well beyond". This is an opportunity to have a voice, which may not happen again for some time.

ACCOUNTING STANDARDS OVERSIGHT COUNCIL – COMING TO HALIFAX

The Accounting Standards Oversight Council (AcSOC) – the oversight body for the Accounting Standards Board – has selected Halifax as the location for one of its meetings this year. This meeting will be held June 16 – 17, 2005 at the World Trade and Convention Center, following the AcSB's round-table discussions. As per tradition, the AcSOC welcomes all interested individuals to observe the proceedings and/or to make a presentation on issues of concern (e.g. a presentation to advise the AcSOC of your views on the proposed changes in the AcSB's strategic direction toward adopting international accounting standards.)

The meeting agenda is posted on AcSOC's website (www.acsoc.ca), which also contains pertinent information about AcSOC, including its terms of reference, membership, report on previous meetings, etc. Likely agenda items include: lessons to be drawn from Nortel's accounting problems, income trust reporting issues, issues of concern to AcSOC members, public sector reporting issues – as well as the Accounting Standards Board's proposed change in strategic direction. Observer registration forms and guidelines are available on the AcSOC website at http://www.acsoc.ca/index.cfm/ci_id/13720/la_id/1.htm.

LOCAL GOVERNMENT REPORTING

Practitioners, who have reported on PSAB compliant financial statements, may also be requested to provide information prepared in accordance with the accounting policies prescribed by the Municipal Accounting and Reporting Manual.

Practitioners are reminded that only one set of accounting principles – GAAP - can be used in a particular period for *general purpose* financial statements. If financial statements are also prepared for the same period in accordance with another basis of accounting, they cannot be considered general purpose as well. Further, it is not appropriate to modify the auditor's report only for reference to "unconsolidated". With the introduction of differential Reporting, the previous "soft" qualification for non-consolidation was withdrawn. For entities such as local governments, which do not qualify for differential reporting, an audit report on *general purpose* financial statements which have not been consolidated, when GAAP or PSAB dictate otherwise, falls under Handbook Section 5500 – Reservations in the Auditor's Report, usually resulting in an adverse opinion.

As an alternative, additional information, including non-consolidated financial statements, may be provided but should be clearly distinguished from financial statements reported on for general purposes. There are various ways of providing this information:

- prepare as a compilation engagement;

- report under CICA Section 5600, only if criteria for special purpose financial statements is met; or
- include supplementary information with the general purpose financial statements – if *clearly* described as such.

CICA Section 5400.11 stresses the importance of clearly differentiating unaudited information which could be construed to be part of the audited financial statements. Usually the information is preceded by wording to the effect that “the following supplementary information had not been audited or reviewed and should not be considered part of the financial statements”.

COMMISSIONS and VALUE BILLINGS

From time to time, the Institute receives enquiries concerning the purported situation where a member renders “value billings” for providing wealth management advice and a provider of financial products pays the member’s invoice directly or indirectly on behalf of the client. Where the advice provided by the member is minimal, the value billing is essentially a referral fee, which is not permissible under the Rules of Professional Conduct. Further, any payment, direct or indirect, by a third party, whether through a written contract or otherwise, would be considered a commission.

Rule 216 - Commissions allows the payment or receipt of commissions only in relation to the purchase and sale of an accounting practice by a member. It also states that a member engaged in the practice of public accounting, or student employed by that member, shall not accept directly or indirectly from any person who is not a public accountant a commission or compensation for a referral to a client of products or services to others.

Council Interpretation CI 216/1 provides the rationale for this position – essentially, a conflict of interest: *“...Acceptance by a practising member of a commission, finder’s fee or other remuneration from third parties for such agency services would be incompatible with the principle of objectivity which is fundamental to our profession.”*

The Public Interest and Integrity Committee of the CICA and its sub-committee, the Ethics Standards Harmonization Committee, representing all provincial Institutes, are currently reviewing and have compared Rule 216. This is a significant issue facing our profession at this time and it will likely be some time before the Provinces agree on a harmonized position with respect to this matter. Accordingly, for the foreseeable future, commissions and referral fees, direct or indirect, in various forms, are permitted only as stipulated.

SOLICITING CLIENTS – WHAT’S ACCEPTABLE?

Significant changes to the Rules of Professional Conduct governing fee quotations, solicitation and advertising were approved by the membership in June 2003. Some members are unaware that the changes now allow direct solicitation of clients.

The rule changes were required due to a decision of the Saskatchewan Court of Queen’s Bench in which the Court found (previous) Rules 214 and 301.2 to be invalid under the Charter of Rights and Freedoms. Significant revisions to Rules 214, 217 and 301 are described in general terms below. Members should refer to the Rules of Professional Conduct on the Institute’s Web site for the complete rules.

Solicitation

Former Rule 301.2, which prohibited solicitation of “entrusted” engagements, was repealed and replaced with Rule 217.2. The new rule prohibits any form of solicitation in a manner that is persistent, harassing or coercive but does not prohibit solicitation of entrusted engagements. The Council Interpretation to this rule provides guidance on the types of solicitation that are permitted. It does not exclude direct contact – telephone or mail - with a client but communication must be accurate and factual and cannot make unfavorable reflections on the integrity of the profession or any member. Also, as noted above, communication cannot be persistent.

Members are reminded that they are also responsible for ensuring that public relations, recruiting or other agents acting on their behalf do not contravene the rules.

Obtaining or Attracting Clients

Former Rule 301.1 was repealed and is now included in the amended provisions of Rule 217.1, which was renamed *Advertising and Promotion*. This rule has been expanded to cover not just advertising, but also promotional activities, including permissible solicitation of any engagement.

Fee Quotations

Rule 214 was amended to delete the provisions that prohibit a member from quoting a fee unless requested to do so by the client. However, the member is still required to obtain adequate information about the proposed engagement before quoting a fee.

One final consideration – relations involving or impacting other members should always be conducted with the courtesy and consideration due between professional colleagues and in a manner that maintains the good reputation of the profession.

If you have questions regarding the Rules of Professional Conduct or Council Interpretations, please contact Wenda Bennett at wbennett@icans.ns.ca.

AUDIT COMMITTEES: THE BASICS

If your client is looking for basic information on the role and responsibilities of an audit committee, check out the following Web sites:

- CICA: Integrity in the Spotlight - http://www.cica.ca/index.cfm/ci_id/10288/la_id/1.htm
- Deloitte: Audit Committees – A Better Practice Guide
<http://www.deloitte.com/dtt/cda/doc/content/auditcommittee1.pdf>
- E & Y: Audit Committee Library
<https://eyonline.ey.com/eyssso/mainframe.aspx?AppID=43372>
- Grant Thornton: Serving on the Audit Committee of a Not-for-Profit Organization
http://www.grantthornton.com/downloads/15815_15815.pdf
- KPMG: Shaping the Canadian Audit Committee Agenda
<http://www.kpmg.ca/en/services/audit/documents/CdnAuditweb.pdf>
- PwC: Audit Committees – Good Practices for Meeting Market Expectations
<http://www.pwc.com/extweb/pwcpublishations.nsf/docid/74724547F3034A5DCA256EAD0032CE18>

Also, *The Audit Committee Handbook*, by Louis Braiotta Jr., now in its 4th edition, is a functional guide for audit committees, updated to reflect changes in the regulatory environment. For a review, go to www.CAmagazine.com/auditcommittee.

SUGGESTIONS FOR THE NEXT ISSUE?

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

ACCOUNTING STANDARDS BOARD ROUNDTABLE

June 16, 2005

9:00 am – 11:00 am

World Trade and Convention Center

Information and registration at www.acsbcanada.org

ACCOUNTING STANDARDS OVERSIGHT COUNCIL MEETING

June 16, 2005

12:30 pm to 5:00 pm

5:00 pm to 5:30 pm (in camera)

June 17, 2005

8:00 am to 12:45 pm

World Trade and Convention Center

Information and registration at www.acsoc.ca